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ABSTRACT

The need for efficient and effective systems to deliver financial assistance to students and to administer the Guaranteed Student Loan (GSL) program is assessed, and recommendations for improving delivery systems are provided. Attention is directed to the delivery of Pell Grant and campus-based assistance, the provision of information to current and prospective postsecondary students, monitoring the delivery process, administering the GSL program, and gathering data on federal aid programs and the students served. Studies on program management and delivery are discussed that were conducted by the following groups: The Keppel Task Force, U.S. Office of Education, Office of Student Financial Assistance, Credit Management Task Force, and U.S. General Accounting Office. Attention is directed to findings concerning: cost of aid delivery on campus, aid office responsibilities, problems of program instability, technological innovations, Pell Grant processing, the need for financial aid information, and information at the secondary level. Additionally, GSL management issues are addressed, along with findings concerning GSL borrowers, variance in administrative requirements, default-related practices, and regulatory enforcement. (SW)

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National Commission on Student Financial Assistance

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ASSURING THE EFFECTIVE DELIVERY OF STUDENT FINANCIAL ASSISTANCE

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HE016 694

Report No. 6

September 1983

National Commission on Student Financial Assistance

ASSURING THE EFFECTIVE DELIVERY OF STUDENT FINANCIAL ASSISTANCE

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NATIONAL COMMISSION ON STUDENT FINANCIAL ASSISTANCE

The National Commission on Student Financial Assistance was created by Public Law 96-374, the Education Amendments of 1980. During the congressional deliberations on those amendments, the Congress realized there was a general lack of reliable information and well-informed policy recommendations on many of the most fundamental and important federal student assistance policy issues in postsecondary education. The National Commission was established to correct this situation and to serve as a reliable policy agent for the President and the Congress.

Established in 1981, the National Commission is a bipartisan panel of members of Congress, leaders in the higher education community and representatives of the public. The panel is composed of twelve members, four appointed by the President of the United States, four by the House of Representatives and four by the United States Senate.

The final report of the National Commission is due on July 1, 1983.

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EXECUTIVE SUMMARY

In the area of student aid delivery, the National Commission on Student Financial Assistance focussed on the need for more efficient and effective systems to deliver financial assistance to students and to administer the Guaranteed Student Loan program. The research conducted by the Commission and the hearings it held on these topics revealed a widely held concern that the current delivery system was confusing, unpredictable, and unstable. The desire of all participants in the student aid delivery process to remedy these inadequacies was apparent throughout the Commission's investigations.

The Commission has developed recommendations that address a variety of issues within the delivery process. Included in these recommendations are suggestions for improving the delivery of Pell Grant and campus-based assistance, enhancing the provision of information to current and prospective postsecondary students, monitoring the delivery process, more efficiently administering the Guaranteed Student Loan program, and gathering more detailed data on the federal aid programs and the students they serve.

There is a glaring need for improvements in the student aid delivery system. Inefficiency, a lack of timeliness, and burdensome administrative requirements have eroded the value of student assistance. The Commission believes that the equity of student aid distribution and the ability of the aid programs to serve their Congressionally intended goals can be enhanced though improvements in the delivery system. Many of the recommendations included in this report can be implemented through the regulatory process at minimal or no cost to the federal government.

DELIVERING STUDENT FINANCIAL ASSISTANCE

The system for delivering student financial assistance has grown in size and complexity since the passage of the Higher Education Act of 1965. As new aid programs have been designed and others modified, the delivery system has been adapted and recreated to meet the demands of managing more dollars and serving more students. Simultaneous with the expansion of the federal aid programs has been the development of numerous state, institutional and private sources of assistance for students. The ability of the aid delivery system to integrate these various sources of assistance successfully has been severely challenged in recent years.

Growing paperwork responsibilities have affected the operations of all of those involved in delivering student financial assistance. Students and parents are also faced with increasing numbers of forms to complete and procedures to follow in the aid application process. Financial aid officers in postsecondary institutions have been loaded down with increased responsibilities and administrative tasks. At the same time, changing program rules and insufficient time to adapt to new regulations have seriously complicated the tasks of those administering the programs.

THE NEED FOR A MASTER CALENDAR

The delivery of financial assistance to current and prospective postsecondary students involves a cooperative effort between the federal government, states, private organizations, lenders, postsecondary institutions, students and parents. The determination of a student's eligibility for student assistance and receipt of an aid package involves the coordination of the financial resources of all of these parties. Although the federal government is the largest single provider of direct student assistance, it cannot function in isolation of the other parties in aid delivery. Decisions made at the federal level invariably affect the operations and policies of all of those involved in delivering student aid.

The timetable for submitting student aid applications and for receiving notifications of awards is compressed into a very short period. Even under the best of circumstances, federal student aid applications are not made available until after January 1 of the academic year. This gives students and parents only four to five months to complete the forms and receive financial aid packaging details from schools before decisions and deposits are required for fall enrollment. Breakdowns in the system, lack of adherence to even this timetable, and demands on aid delivery participants can cause delays in this schedule and force students who do not have complete financial information to choose a postsecondary institution before they are informed of the types and amounts of aid they will receive. Aid officers are often caught in the middle of this process; they try to provide final information to students, yet they cannot guarantee the amount of aid that students will receive.

The National Commission on Student Financial Assistance believes that the agencies within the federal government that are charged with the administration of the student financial aid programs must take responsibility for maintaining order and stability within the programs and among the program participants. Toward this end, the Commission is convinced that a schedule for the completion of major tasks in the delivery process will add the necessary order to allow for the proper administration of the programs, avoid unnecessary cost to the participants, and reduce confusion among the partners in aid delivery.

RECOMMENDATIONS

- ESTABLISH A "MASTER CALENDAR" THAT INCLUDES SPECIFIC DATES FOR THE SUBMISSION OF FAMILY CONTRIBUTION SCHEDULES FOR PELL GRANTS, CAMPUS-BASED PROGRAMS, AND GUARANTEED STUDENT LOANS; THE DISTRIBUTION OF AID APPLICATION FORMS; THE FINALIZATION OF CAMPUS ALLOTMENTS FOR NDSL, CWS AND SEOG FUNDS; AND FINAL CHANGES IN REGULATIONS THAT APPLY FOR A GIVEN ACADEMIC YEAR.

- PROGRAM REGULATIONS SHOULD BE ISSUED IN FINAL FORM NO LATER THAN ONE YEAR BEFORE THE ACADEMIC YEAR FOR WHICH THEY WILL APPLY. DECISIONS SPECIFIC TO AID APPLICATION FORMS OR THE DATA ELEMENTS TO BE INCLUDED IN THE FORMS SHOULD BE FINALIZED EIGHTEEN MONTHS PRIOR TO THE START OF THE APPLICABLE ACADEMIC YEAR.

If the deadlines included in the calendar are not adhered to, the rules or forms used in the previous year would remain in effect for the current year.

DISSEMINATING REGULATORY CHANGES

In assessing the problems associated with changes in regulations and program requirements, one of the key areas of concern is the ability to secure accurate final copies of these rules. Problems have been cited in the dissemination of final rules to program participants.

RECOMMENDATIONS

- THE U.S. DEPARTMENT OF EDUCATION MUST ASSUME THE PRIMARY RESPONSIBILITY FOR DISSEMINATING FINAL COPIES OF REGULATORY CHANGES TO ALL PARTIES IN THE DELIVERY SYSTEM. DISSEMINATION OF REGULATORY REVISIONS SHOULD BE ACCOMPLISHED QUICKLY AND SHOULD INCLUDE "LAY LANGUAGE" INTERPRETATIONS OF THE RULES. ADDITIONALLY, THE DEPARTMENT SHOULD ISSUE A COMPREHENSIVE CATALOG OF REGULATORY RELEASES SO THAT ALL INTERESTED PARTIES WILL BE ABLE TO DETERMINE IF THEY HAVE A COMPLETE SET OF REGULATIONS RELATING TO STUDENT ASSISTANCE.

USING TECHNOLOGICAL RESOURCES

Advancements in data processing capabilities and their application to student financial assistance have eased the workload for those financial aid offices and state agencies that use these resources. The cost of these systems must be shared by the program participants. The system operated by the Pennsylvania Higher Education Assistance Agency exemplifies how states can take the initiative in sharing technological resources with postsecondary institutions and others involved in the delivery of student financial assistance.

RECOMMENDATION

- THE FEDERAL GOVERNMENT, THE STATES AND POSTSECONDARY INSTITUTIONS SHOULD WORK COOPERATIVELY TO ENCOURAGE THE USE OF AUTOMATED SYSTEMS FOR DELIVERING STUDENT FINANCIAL ASSISTANCE.

PELL GRANT PROCESSING

The system for processing Pell Grant applications needs to be reviewed in order to improve its own internal efficiency and to reduce the burden that it places on students and financial aid officers. The current system is not sufficiently integrated with the operations of the other aid programs. Separate reporting requirements, application processing and management rules cause confusion among those involved in the delivery process. Students, especially, are alienated by this process and are often caught in the midst of administrative inefficiencies.

The use of a central processor for Pell Grants creates duplicative work on the campus level in both application processing and reporting. The correction of errors in application data is a time-consuming process for students and aid administrators and results in significant delays in awarding Pell Grant dollars to students. The processing of corrections at the central facility is largely a manual process that is both costly and inefficient.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD EXAMINE THE PELL GRANT PROCESSING SYSTEM IN ORDER TO IMPROVE PROGRAM EFFICIENCY AND EXPEDITE THE DELIVERY OF PELL GRANT AWARDS TO STUDENTS. CONSIDERATION SHOULD BE GIVEN TO GRANTING MORE FLEXIBILITY TO POSTSECONDARY INSTITUTIONS IN THE PROCESSING OF PELL GRANTS, ESPECIALLY IN THE AREA OF CORRECTIONS.

STUDENT AID INFORMATION

The availability of accurate, comprehensive information on student financial assistance is crucial to students and parents who are making decisions about postsecondary education. Access to this information is important during and prior to enrollment in a postsecondary institution. Changing rules, eligibility criteria and award levels for federal student assistance programs have placed an even greater burden on those involved in disseminating information on student aid programs.

The quality and quantity of information on student assistance varies from state to state and from school to school. While federal efforts to provide postsecondary students and prospective students with information on the aid programs have increased in recent years, there are still gaps, confusions and misconceptions among those needing this information. In some instances, initiatives on the parts of states, student aid officers and high school personnel have provided valuable supplements to federal efforts. These personnel also are the major disseminators of information on nonfederal sources of student assistance.

The TRIO programs have been a valuable supplement to overall federal efforts to disseminate student aid information. Their concentration on minority and disadvantaged youth has helped provide information to those least likely to have access to financial aid data through more conventional means.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD ASSUME THE ROLE OF COORDINATOR OF EFFORTS TO DISSEMINATE INFORMATION ON FEDERAL STUDENT ASSISTANCE PROGRAMS. EFFORTS SHOULD BE MADE TO COOPERATE WITH STATES TO DISSEMINATE INFORMATION ON ALL SOURCES OF STUDENT ASSISTANCE, BOTH FEDERAL AND NONFEDERAL.

- SECONDARY SCHOOLS AND SCHOOL DISTRICTS SHOULD BE INCLUDED IN FEDERAL INFORMATION DISSEMINATION EFFORTS. THEY SHOULD RECEIVE ALL INFORMATION MATERIALS PRODUCED BY THE DEPARTMENT OF EDUCATION AND SHOULD BE ISSUED STUDENT-ORIENTED DESCRIPTIONS OF AID PROGRAMS THAT CAN BE DISTRIBUTED TO STUDENTS AND PARENTS.

- THE DEPARTMENT OF EDUCATION SHOULD WORK WITH THE GUIDANCE AND ADMISSIONS COUNSELORS AND OTHERS AT THE SECONDARY SCHOOL LEVEL TO DETERMINE THE NEEDS OF SECONDARY SCHOOL STUDENTS AND COORDINATE TRAINING AND THE DISSEMINATION OF STUDENT AID INFORMATION. ORGANIZATIONS REPRESENTING COUNSELING PERSONNEL SHOULD BE CONSULTED BY THE DEPARTMENT AS A PART OF THESE EFFORTS.

- THE DEPARTMENT OF EDUCATION SHOULD CONSIDER IMPLEMENTING THE "PRE-ELIGIBILITY" DETERMINATION SYSTEM DESCRIBED IN SECTION 483(c) OF THE HIGHER EDUCATION ACT SO THAT STUDENTS AND PARENTS CAN HAVE MORE ACCURATE INFORMATION REGARDING THE FINANCIAL ASSISTANCE FOR WHICH THEY MAY BE ELIGIBLE.

- THE TRIO PROGRAMS SHOULD CONTINUE TO PROVIDE STUDENT AID INFORMATION TO DISADVANTAGED AND MINORITY STUDENTS AND TO REACH OUT TO STUDENTS WHO DO NOT ATTEND A POSTSECONDARY INSTITUTION IMMEDIATELY AFTER HIGH SCHOOL.

MONITORING THE DELIVERY SYSTEM

A crucial factor in the proper functioning of the delivery system is the maintenance of communication between the Department of Education, the Congress, the postsecondary education community and others involved in the delivery of student assistance. This type of communication has been conducted informally throughout the history of the student aid programs and has become an essential part of the design of program rules in recent years.

The nature of the student aid partnership makes it imperative that federal decision-makers do not conduct business in a vacuum, without the input of the postsecondary community. The delays in the delivery system, the problems they have caused participants in the delivery process and the general air of confusion that has surrounded the delivery of student assistance all are evidence of the need for open channels of communication between the Department of Education, the Congress and the participants in the student aid delivery system.

OPTIONS

Two options for monitoring the student aid delivery system have been identified by the National Commission's Subcommittee on Governance and Administration.

Informal Monitoring

The Secretary of Education and the Congress should continue their efforts to monitor the student aid delivery system more closely. By working cooperatively, the executive and legislative branches can oversee the operations of the delivery system, work to overcome problems that arise and develop refinements to the system so that it can operate in the most efficient and effective manner possible.

Advisory Panel

The Congress should establish a student aid delivery advisory panel. This panel would serve to monitor the operation of the delivery system and coordinate the efforts of the federal, state, institutional and private partners in the delivery of student aid. This panel would advise Congress and the executive branch and conduct research as needed on issues pertaining to the delivery of student financial assistance.

The coordination of efforts to monitor the delivery process would be formalized through the establishment of an advisory panel that would provide both the Congress and the executive branch with comments, analyses and proposals on the student aid delivery system.

This advisory panel would monitor the student aid delivery system to ensure that it is:

- o operating as efficiently as possible;
- o treating all participants equitably (that is, not placing an unequal administrative burden on any one sector); and
- o maintaining overall stability and predictability.

The panel would also ensure that no aspect of the delivery process is inhibiting student access to the programs.

MANAGING THE GUARANTEED STUDENT LOAN PROGRAM

The conclusions and recommendations of the National Commission on Student Financial Assistance concerning the management of the Guaranteed Student Loan program focus on four major objectives:

- o reducing the rate of default among Guaranteed Student Loan borrowers;
- o clarifying/refining administrative procedures;
- o reducing federal default costs; and
- o gaining a more thorough understanding of the characteristics and behavior of GSL borrowers.

While these goals often can be achieved through similar means, some policies may address only one of these goals.

The recommendations in this section concern improvements in the Guaranteed Student Loan program as it is currently structured.

ROLE OF GUARANTY AGENCIES

The role of guaranty agencies in the proper management of the Guaranteed Student Loan program is of primary importance. States whose guaranty agencies were established in the early years of the program have historically been superior managers of Guaranteed Student Loans; the establishment of guaranty agencies where none was previously in operation has resulted in the improved delivery and availability of student loans. Guaranty agencies play crucial roles in keeping default rates low, ensuring student access to loans, recruiting lenders for the program, recovering money from defaulted borrowers and providing data on program operations and participants. These services have been developed through a very important series of federal incentives that are included in the Title IV statute.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD CONTINUE TO WORK WITH GUARANTY AGENCIES SO THAT THEY CAN CARRY ON THEIR ROLE AS CRITICAL PARTICIPANTS IN THE ADMINISTRATION AND DELIVERY OF GUARANTEED STUDENT LOANS. GUARANTY AGENCIES SHOULD CONTINUE TO UNDERTAKE STEPS TO REDUCE GSL DEFAULTS, COLLECT ON DEFAULTED LOANS AND PROVIDE PROGRAM DATA TO THE FEDERAL GOVERNMENT.

DATA COLLECTION NEEDS

There is a crucial need for more detailed information on the Guaranteed Student Loan program and its borrowers. Currently, there is no central, coordinated effort to collect, analyze and utilize data on characteristics and actions of the participants in the GSL delivery process. This has resulted in a lack of statistical evidence to assess different policy options or to evaluate the consequences of past decisions.

The collection and analysis of more detailed program data involve a long-term commitment on the part of all GSL participants. Because of recent advances in the data processing capabilities of nearly all guaranty agencies, detailed data on lending, defaults and borrower demographics do not have to be solicited centrally by the Department of Education. Rather, the Department, in cooperation with the Congress, the postsecondary education community, lenders and servicers, should work to define data collection needs and develop data files that can be updated annually.

RECOMMENDATIONS

- ESTABLISH A COORDINATED, NATIONAL EFFORT TO COLLECT INFORMATION ON THE PARTICIPANTS AND PROCESSES OF THE GUARANTEED STUDENT LOAN PROGRAM. DEVELOP A NATIONAL DATA BASE CONTAINING INFORMATION ON ALL OF THE PARTICIPANTS IN THE DELIVERY OF GUARANTEED STUDENT LOANS.

COORDINATING INFORMATION AND REPORTING

The need to supervise the expenditure of federal dollars closely requires that administrators of Guaranteed Student Loans carefully report on their handling of loan funds. Currently, in addition to the federal government, state governments, guaranty agencies and others require regular reports from participants in the GSL delivery process. The large number of report forms creates some problems for lenders, servicers and postsecondary institutions that must comply with their different formats, deadlines and data elements. Lenders and servicers that operate in different states face special obstacles in attempting to comply with various reporting requirements.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT, IN COOPERATION WITH GROUPS REPRESENTING GSL PROGRAM ADMINISTRATORS, SHOULD STANDARDIZE THE REPORTING FORMS REQUIRED OF GSL PARTICIPANTS. THE ELEMENTS AND FORMATS OF FEDERAL FORMS SHOULD BE USED AS MUCH AS POSSIBLE BY OTHERS COLLECTING INFORMATION FROM GSL PARTICIPANTS. STUDENT APPLICATION FORMS SHOULD ALSO BE STANDARDIZED.

REDUCING LOAN DEFAULTS

Lenders, servicers, guaranty agencies, postsecondary institutions and secondary markets have contributed to reducing the default rate on Guaranteed Student Loans. Those involved in originating, servicing and collecting student loans have tried to find the most successful means to encourage borrowers to meet their repayment obligations. Depending on the part of the process they are involved in and the characteristics of the borrowers whom they serve, the tactics employed in default reduction attempts may vary.

The impact of practices employed for the purpose of minimizing loan defaults must be monitored closely to ensure that they are not restricting loan access or placing unequal burdens on particular segments of borrowers. The goal of the Guaranteed Student Loan program is to provide all eligible students with the means to secure low-interest loans. While default rates and costs can be minimized, it may not be possible to eliminate them entirely. Recent trends, especially in net default rates, indicate that good management practices and cooperation between participants in the lending process can effectively control federal costs for default.

RECOMMENDATIONS

- IN GENERAL, THOSE INVOLVED IN THE FEDERAL STUDENT LOANS PROCESS SHOULD:

  - PROVIDE BORROWERS WITH COMPLETE, ACCURATE INFORMATION ON THEIR RIGHTS AND RESPONSIBILITIES BEFORE THE LOAN IS DISBURSED;

  - CLOSELY MONITOR THE BORROWER'S STUDENT STATUS AND PROMPTLY COMMUNICATE ANY CHANGES IN STATUS TO THE BORROWER;

  - MAINTAIN CONTACT WITH THE BORROWER DURING THE GRACE PERIOD AND PROVIDE THE BORROWER WITH COMPLETE INFORMATION ON HIS OR HER REPAYMENT AND DEFERMENT OPTIONS;

  - ATTEMPT TO AVOID DEFAULT CLAIMS BY ALLOWING BORROWERS SUFFICIENT FLEXIBILITY TO KEEP UP PAYMENTS DURING TEMPORARY PERIODS OF FINANCIAL HARDSHIP;

- o USE THE SERVICES OF GUARANTY AGENCIES TO CONTACT AND COLLECT FROM BORROWERS WHO ARE NOT FULFILLING THEIR REPAYMENT OBLIGATIONS; AND

- o USE TECHNOLOGICAL CAPABILITIES TO EXCHANGE INFORMATION WITH FEDERAL, STATE AND LOCAL AGENCIES TO LOCATE MISSING BORROWERS.

- o LENDERS, SERVICERS AND GUARANTY AGENCIES SHOULD COLLECT MORE DETAILED INFORMATION ON THE EFFECTIVENESS OF VARIOUS ADMINISTRATIVE PROCEDURES. THIS INFORMATION SHOULD BE EXCHANGED TO DEVELOP STANDARDS OF PRACTICE THAT ARE SPECIFIC TO THE DELIVERY OF STUDENT LOANS.

- o IN ORDER TO ADDRESS PROBLEMS ENCOUNTERED BY BORROWERS IN THE EARLY YEARS OF REPAYMENT AND THOSE WHO HAVE INCREASING LOAN BALANCES, A GREATER EMPHASIS SHOULD BE PLACED DURING LOAN ORIGINATIONS ON DEBT-BURDEN COUNSELING AND OVERALL DEBT LIMITS.

- o CARE MUST BE EXERCISED TO ENSURE THAT ADMINISTRATIVE RULES DESIGNED TO LOWER THE RATE OF GUARANTEED STUDENT LOAN DEFAULTS DO NOT RESULT IN THE DENIAL OF ACCESS TO THESE LOANS TO ELIGIBLE STUDENTS. THE DEPARTMENT OF EDUCATION SHOULD MONITOR THE PRACTICES OF GUARANTY AGENCIES TO ENSURE THAT LOANS ARE NOT BEING DENIED TO CERTAIN GROUPS OF STUDENTS BECAUSE OF RESTRICTIVE ADMINISTRATIVE POLICIES.

RECOVERING DEFAULTED LOAN PRINCIPAL

A significant factor in lowering federal costs for defaults has been the collections made from borrowers who have been declared in default. The federal government has made a policy commitment in recent years to recoup funds on loans on which it has paid its guarantee. Incentives provided to guaranty agencies have also added to the amount of money collected. Loopholes in bankruptcy statutes still allow student loans to be written off, for only a few cents on the dollar in some cases. These laws should be tightened so that defaulters can be pursued in future years.

RECOMMENDATIONS

- o THE FEDERAL GOVERNMENT SHOULD CONTINUE TO COLLECT ON DEFAULTED LOANS THROUGH A COLLECTIONS EFFORT OPERATED BY THE DEPARTMENT OF EDUCATION AND BY PROVIDING INCENTIVES TO GUARANTY AGENCIES FOR THIS PURPOSE. FEDERAL BANKRUPTCY STATUTES SHOULD BE MODIFIED SO THAT THE GUARANTEED STUDENT LOAN PRINCIPAL AND INTEREST REMAINING AFTER SETTLEMENTS CAN BE PURSUED IN LATER YEARS.

INTRODUCTION

The governance and administration of the federal student financial aid programs has been examined and analyzed from many different perspectives. As the federal role in providing support for students pursuing postsecondary careers has increased, so has the complexity of the system used to deliver student aid. In fiscal year 1982, over $6 billion in federal student assistance was distributed to over 3 million students attending over 6,000 postsecondary institutions. The task of administering a system that is responsive to the needs of such a large and varied group involves the cooperative efforts of thousands of partners in the delivery process.

The work of the Governance and Administration Subcommittee of the National Commission on Student Financial Assistance concentrated on the operational aspects of the delivery system. The subcommittee divided its examination into two separate, yet not unrelated, areas of concentration: the delivery of the campus-based and Pell Grant programs, and the management of the Guaranteed Student Loan program. While the systems that deliver these different sources of aid to students merge at various points in the process, their operations, requirements and adminstrative priorities are sufficiently distinct to warrant individual examination.

In addition, the subcommittee commissioned a paper examining the state allocation formulas for campus-based federal student assistance programs. This paper is published separately from this final report and includes discussions of the workings of the formulas and several ideas for further refinement of the allocation process.[1]

In evaluating, analyzing, reaching conclusions and developing recommendations on these topics, the Governance and Administration Subcommittee commissioned studies of specific components of the delivery process, examined and expanded upon existing sources of data, consulted with participants in the delivery of federal student assistance, reviewed relevant literature, and conducted public hearings. This led to a detailed insight into the administration of the aid programs and to ways of refining their operation.

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[1]Applied Systems Institute, Overview of State Allocation Process for Campus Based Student Aid (Washington, D.C.: National Commission on Student Financial Assistance, April 1983).

LEGISLATIVE CHARGE

The research of the Governance and Administration Subcommittee was undertaken in response to the legislative charge of the National Commission on Student Financial Assistance contained in Public Law 96-374, Section 491. The subjects that were assigned to the Governance and Administration Subcommittee for study included:

> o more effective means to reduce default, fraud, abuse and delinquency in the programs authorized by [Title IV];
>
> o the most appropriate mechanism for the effective and efficient origination, servicing and collection of student loans and for the effective and efficient delivery of other forms of student financial assistance; and
>
> o the effectiveness in serving the purposes of this title of the existing formulas for allotment among the States [of campus-based student aid funds].

The Subcommittee on Governance and Administration attempted to examine the areas included in its legislative mandate and, in fact, has broadened the scope of its inquiries into these topics.

SUBCOMMITTEE HEARINGS

The Governance and Administration Subcommittee sponsored three public hearings as part of its efforts to examine the management of the federal student aid programs.

The first hearing was held on December 14, 1982, in Anaheim, California during a meeting of the California Association of Student Financial Aid Administrators. The subcommittee heard testimony on the student aid delivery system, awarding policies, and satisfactory academic progress standards for student aid recipients.* The subcommittee also heard testimony from a panel of high school and college financial aid

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*As part of its public hearings, the Governance and Administration Subcommittee solicited testimony on satisfactory academic progress standards for student aid recipients. This information was then given to the Commission's Subcommittee on Satisfactory Academic Progress and was utilized in the preparation of that subcommittee's final report.

counselors on the information needs of current and prospective postsecondary students.

The subcommittee's second hearing was held in Lexington, Kentucky on February 16, 1983, as part of the annual meeting of the Southern Association of Student Financial Aid Administrators. Testimony was delivered in Lexington on the student aid delivery system, the state allotment formula for campus-based student aid programs, the servicing of Guaranteed Student Loans and satisfactory academic progress. A panel of representatives from the National Association of College and University Business Officers delivered testimony on the institutional costs of aid delivery and other concerns. Mr. Francis Keppel, Chairman of the National Student Aid Coalition and a distinguished commentator on the aid delivery system, also testified.

The final subcommittee hearing was held in Washington, D.C. on March 7, 1983. At this hearing, the subcommittee solicited the testimony of students on the aid delivery process, problems with delays in the delivery of aid, student information needs and the impact of the aid programs on postsecondary access and choice.

SECTION I. DELIVERING STUDENT FINANCIAL ASSISTANCE

CHAPTER 1. THE AID DELIVERY SYSTEM

> Our national program of student financial assistance is characterized by multiple aid sources, providers and administrators and diversity in criteria for program eligibility. Given this composition, the system which eventually brings these sources of aid in a complementary "package" tailored to the individual needs of the recipients--must be efficient, convenient and responsive to all parties in the process.[2]

INTRODUCTION

The delivery of federal student assistance has been a source of controversy throughout the history of the programs. The Congress, the postsecondary community, and the executive branch have all offered positions, alternatives and recommendations on the proper management and delivery of student assistance dollars. Primarily, these commentaries have centered around two main themes: effective management of the programs and elimination of fraud and abuse in the distribution of student aid.

Efforts to examine the management and delivery of the federal student assistance programs have taken many forms, including private sector task forces, presidential panels, community self-evaluations, congressionally sponsored investigations and Education Department studies. All of these efforts have been directed at identifying the most efficient manner of distributing federal funds to students, but they have varied in approach and perspective.

To some degree, the conclusions reached by these management assessments have been affected by their starting points. Because of the large number of participants in the delivery of student financial assistance, most studies have concentrated on specific elements involved in the process. Evaluations have been conducted of federal management responsibilities in the

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[2]Prepared testimony of Francis Keppel, National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, pp. 9-10.

delivery of student aid, the practices of postsecondary institutions, the administrative duties of the states and the role of students in the aid process.

Additionally, the point of view of those conducting these studies has colored their conclusions to some degree. For example, studies to identify barriers to student access have offered different recommendations than have inquiries into program fraud and abuse.

Recommendations concerning the management and delivery of student financial assistance are made within the context of the overall goals of the student financial assistance programs. Currently, a great deal of institutional autonomy has been built into the management of student aid. The campus-based concept of the National Direct Student Loan (NDSL), College Work Study (CWS) and Supplemental Educational Opportunity Grant (SEOG) programs was designed to allow for the aid programs to respond to individual needs and student circumstances. Not surprisingly, the two programs with the largest cost to the federal government, Pell Grants and Guaranteed Student Loans, operate under the strictest federal guidelines.

The rules governing the management of the aid programs reflect differing levels of federal intervention. All of the programs operate under specific procedures for requesting and obtaining funds from the federal government, recovering overawarded funds, reporting expenditures and determining eligibility. Historically, the federal government has not provided detailed rules for the packaging of student aid awards, developing budgets for the campus-based programs or measuring satisfactory academic progress.* Thus, in evaluating the administration of student assistance programs, it is essential to differentiate between those areas where the federal government has or has not seen fit to intercede.

In general, those involved in the the administration of student financial assistance agree that the sharing of responsibility for aid delivery enhances the ability of the programs to serve the needs of students. In testimony before the National Commission on Student Financial Assistance in Anaheim, California, Leon King, Director of Financial Aid at California State University at Northridge, stated that:

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*See the National Commission on Student Financial Assistance, "Satisfactory Academic Progress Standards for Federal Student Aid Recipients" (Washington, D.C.: NCSFA, April 1983).

> in the packaging or in the awarding policies everybody has a role: the federal government in establishing a delivery system for us, the student who is being educated, and the financial aid officers who can perform a task much more effectively than if the shots were being called from a central area like Washington.[3]

The proper functioning of the student aid delivery system is dependent on the cooperative efforts of the federal government, the states, postsecondary institutions, private entities, students and numerous administrative personnel on each of these levels. The National Commission on Student Financial Assistance has concentrated on evaluating the functioning of delivery partnership. The Commission's chief efforts have been to enhance these efforts, build upon the experiences of the program participants and promote overall efficiency.

MANAGEMENT AND DELIVERY STUDIES

The Keppel Task Force

In 1975, the National Task Force on Student Aid Problems issued a final report that identified a number of areas within the management of student financial assistance that could be modified, eliminated or improved. The task force, which included representatives of all the major participants in the delivery of student assistance--financial aid officers, postsecondary institutions, the states, need analysis processors, the U.S. Office of Education, and students--provided the Congress and the White House with valuable suggestions on altering the current processes for determining and disbursing aid awards. Chaired by Francis Keppel (and commonly referred to as the Keppel Task Force), the task force defined what it considered to be the goal of federally sponsored student financial assistance:

> The primary purpose of student aid is to provide financial resources to students who would otherwise be unable to begin and complete the type of postsecondary education they wish to pursue. It is further agreed that the internal elements of the student aid programs should be such as to provide a coordinated system to achieve this primary purpose.[4]

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[3]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982, p. 47.

[4]National Task Force On Student Aid Problems, Final Report (Washington, D.C.: NTFOSAP, 1975), p. 6.

The Keppel Task Force report addressed many issues that are still the subject of debate, such as the validation of application data, the concept of a single application form for all student aid programs, the availability of information for students, the professional needs of campus aid offices, and the need for overall program coordination. Among its most significant statements, the task force called for the implementation of a detailed schedule or calendar of administrative tasks that would allow for more effective planning on the part of the federal government, aid officers and students. The task force observed that the existence of numerous forms and sources of student assistance helps the system serve students with differing needs and resources. However, the task force contended, this diversity has fostered confusion and inconsistency among all participants in the delivery of student financial assistance.

The recommendations of the National Task Force on Student Aid Problems were seriously considered during congressional deliberations on the Education Amendments of 1976 and, since the report's release, have been a useful reference tool for those involved in evaluating student financial assistance programs.

U.S. Office of Education/Department of Education Studies

The U.S. Department of Education (and its predecessor, the U.S. Office of Education) has been greatly concerned about the proper management and delivery of student financial assistance dollars. It is the Department of Education that is ultimately responsible for the proper administration of the billions of dollars in student aid that are appropriated by Congress annually. Three separate efforts on behalf of the Department have focused on concerns similar to those addressed by the National Commission on Student Financial Assistance:

- the Study of the Impact of Student Financial Aid Programs (SISFAP);
- the series of studies conducted under the title "quality control"; and
- the recently created Credit Management Task Force.

All of these studies have taken different approaches and have concentrated on different areas of the delivery system.

The Study of the Impact of Student Financial Aid Programs (SISFAP) was conducted in three segments. SISFAP I and II involved an extensive review of the literature on issues in the administration of student assistance programs and an overview of the basic operating procedures and data associated with the expenditure of federal funds for student aid. A computer simulation analysis of the Basic Grant Program was also completed under SISFAP I and II.

The on-campus management of federal student assistance programs was examined in detail during the conduct of SISFAP III in 1978 and 1979. In summary, SISFAP III included:

o extensive reviews of the management practices of a nationally representative sample of student aid offices;

o analyses of trends and variances in aid office management practices, techniques and philosophies;

o interviews with college presidents, business officers, registrars and others involved in the on-campus administration of student assistance programs; and

o surveys of aid applicants, recipients and nonrecipients to determine information, counseling and other needs, and to gather information on postsecondary financing.

SISFAP's conclusions were published in a two-volume report detailing the management practices employed by aid offices and the distribution of federal student aid dollars among students in all sectors of postsecondary education--private, public and proprietary.

In a follow-up to SISFAP III, a study was conducted in order to determine the impact of the Middle Income Student Assistance Act (MISAA) on the distribution of federal student financial assistance. A planned effort, SISFAP IV, has not been funded by the Department of Education as of this date. SISFAP IV was designed to supplement the type of data collected during the previous SISFAP efforts, add data on graduate student financing, and collect more detailed information on the distribution of Guaranteed Student Loans.

The SISFAP studies of aid management practices filled a large gap in the research on the administration of the student financial aid programs. As the SISFAP III report notes:

> Student financial aid is an emergent profession, the newcomer among administrative roles in higher education. The scope of activities, the professional practices, and other major elements of the field are not well codified . . . . Scattered articles and monographs reflect a general suspicion that practices are widely variable, that some aid operations are inadequately supported, and that, in general, students do not get similar treatment when they approach different institutions.[5]

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[5]Applied Management Sciences, Study of Program Management Procedures in the Basic Grant and Campus Based Programs, Final Report, vol. 1: The Institutional Administration of Student Financial Aid Programs, prepared for the U.S. Department of Education, Office of Planning and Evaluation, May 1980, p. 1.15.

Among the more significant findings of the SISFAP III analysis of institutional management practices was the large degree of variance from institution to institution. The report notes that some degree of variance in program practices is to be expected and, in fact, is a part of the intent of the campus-based concept. There were insufficient data, however, from which to draw conclusions on the impact that this high degree of variance has on the treatment of individual student aid applicants and recipients.

A final product of the SISFAP III study was the publication of A Guide to Selected Financial Aid Management Practices. This Guide was designed to provide information to novice and experienced student aid officers alike in areas in which the study identified deficiencies. The topics covered by the Guide include packaging, the role of the aid office in the institutional hierarchy, counseling for students from special population groups, and techniques of developing and disseminating information on student assistance programs. Included in the aid information chapter is a model of a student aid information guide for use by postsecondary institutions.

Quality Control Studies

The Office of Student Financial Assistance (OSFA) in the Department of Education has conducted a series of reports under the heading "Quality Control." While the SISFAP reports represent an attempt to gather data on and evaluate the student aid programs, the Quality Control examinations concentrate on assuring that federal funds are being spent in accordance with the law.

OSFA's Division of Quality Assurance investigated the error rate on Basic Grant (Pell Grant) applications, the effects of validation procedures and possible changes in the Basic Grant system that could reduce error. Similar studies of the management of all of the Title IV programs have also been commissioned by OSFA. These Quality Control reports include studies of alternative Title IV delivery systems, the development of quality control systems for institutitonal financial aid offices, improvements in the reporting and application procedures for the campus-based student aid programs and improved monitoring of contracted services under the Title IV programs (for example, application processing). These reports all focus on ways to reduce federal costs of the programs or to prevent the misallocation of federal dollars.

Credit Management Task Force

In 1981, the U.S. Department of Education launched an examination of the administration of the student financial

assistance programs--the Credit Management Task Force. As the name suggests, the initiative for this effort is to reexamine the credit policies of the various programs run by the Department of Education. In order to carry out this task, however, the Department has chosen to evaluate all of the administrative and delivery aspects of the student financial assistance programs. According to the task force:

> The U.S. Department of Education is under the [Reagan] Administration's mandate to improve its information management, financial management, funds disbursement, and debt management systems. Under OMB Bulletin 83-11, which requires that Executive Branch agencies upgrade their credit management and debt collection practices, the Department is responsible for implementing effective credit management procedures.[6]

Additionally, the task force cites the need for technological innovation in many areas of the management and delivery of the student financial assistance programs as part of the impetus for this evaluation.

The objectives of the Department's examination are to design and establish:

- an effective management information system;
- an auditable financial management system;
- an efficient funds disbursement system;
- an effective debt management system;
- reduced administrative costs to all parties; and
- effective communication between all participants.[7]

The Credit Management Task Force comprises representatives of the Department of Education's Office of Planning, Budgeting and Evaluation; Postsecondary Education; and Management, and is chaired by the Comptroller. Currently, the task force is evaluating alternative models for the delivery of student financial assistance to institutions and students. These models are being compared and contrasted in terms of their cost, efficiency, accountability and ability to serve the needs of the many partners in the aid delivery process.

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[6] Federal Register, March 23, 1983, vol. 48, no. 57.

[7] Ibid.

The U.S. General Accounting Office

From time to time, members of Congress have requested the U.S. General Accounting Office (GAO) to conduct studies of specific areas in the management of the federal student assistance programs. In some instances, GAO has been sharply critical of the manner in which student aid funds are administered on the federal, state and campus levels.

Many of the GAO studies have concentrated on the problems associated with the management of the National Direct Student Loan program (NDSL). Historically, GAO has been concerned with the ability of institutions to collect NDSL funds once students leave school. GAO has also reported that many institutions have problems monitoring their institutional NDSL accounts. General Accounting Office reports have contained many detailed suggestions for improving the management of the NDSL program. The conclusion of a 1977 GAO study sums up a theme found in a number of similar GAO studies:

> If the NDSL program is to continue, we [GAO] believe that the shortcomings recognized by [the Office of Education] and the problems we have noted will not change unless necessary resources are applied to monitor the administration of the NDSL program and to provide technical assistance to participating institutions.[8]

GAO has likewise recommended improving the administration of the other federal student assistance programs. For example, in a report released in 1979, GAO cited the wide variance in management and delivery practices among institutions as a cause of inequitable treatment of student aid recipients. In the report, entitled "Inconsistencies in Awarding Financial Aid to Students Under Four Federal Programs," GAO recommended that practices such as packaging and budgeting be more strictly regulated by the Department of Education. GAO also pointed to the difficulties that campus aid offices face in trying to coordinate the awarding and disbursement of the numerous federal and nonfederal sources of student financial assistance.[9]

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[8]U.S. General Accounting Office, The National Direct Student Loan Program Requires More Attention by the Office of Education and Participating Institutions, # HRD-77-109 (Washington, D.C.: U.S. General Accounting Office, June 27, 1977), p. 18.

[9]U.S. General Accounting Office, Inconsistencies in Awarding Financial Aid to Students Under Four Federal Programs (Washington, D.C.: U.S. General Accounting Office, May 11, 1979), p. iii.

Aid Management Guides

Significant contributions to the improvement of financial aid management have been made by associations representing postsecondary institutions and personnel. Organizations comprised of aid administrators, business officers, registrars, counselors and others have been successful in bringing the concerns of their membership before Congress and the Department of Education. Representatives and members of these organizations have helped shape rules governing aid eligibility standards, award processing, application forms and reporting requirements.

In order to assist their members in properly administering the delivery of student financial assistance, some of these groups have published detailed guides to aid management. The expertise of their membership enables these groups to produce specific, informative manuals that can enhance the operation of aid offices at all types of postsecondary institutions.

In recent years, spurred by the recommendations of the National Associaton of Student Financial Aid Administrators (NASFAA) and other associations, most aid offices have developed operations or policy and procedures manuals. A typical operations manual sets forth the numerous responsibilities of the aid office and the tasks which must be performed in order to carry them out. The development of an operations manual allows the individual aid office to evaluate and apply the concepts included in government regulations and professional publications to their local situation. Aid office personnel, resources, philosophies and policies are unique to every postsecondary institution. While certain management principles are accepted universally, their specific application is subject to the interpretation of each aid office.

Three particular manuals for aid administrators represent different approaches to improving the delivery process. Two were produced by personnel associations--the National Association of Student Financial Aid Administrators (NASFAA) and the National Association of College and University Business Officers (NACUBO)--and one is published by a group of postsecondary institutions--the National Association of Trade and Technical Schools (NATTS). All three of these guides are aimed at promoting better understanding and management of the student aid programs on campus.

The NASFAA Fundamental Financial Aid Self-Learning Guide takes the broadest approach to the presentation of information on aid management. It includes a history of the student assistance programs and is designed as both a reference and training tool for use by aid administrators, counselors and others attempting to familiarize themselves with the aid programs and the delivery process. The NASFAA Guide presents

detailed discussions of the basics of need assessment, budgeting, packaging and other processes. In addition to providing instructions on how to implement proper administrative practices, the NASFAA Guide includes review exercises that test the reader's knowledge of the material in each chapter.

NACUBO has published a manual, Management of Student Aid, that is a technically oriented primer on the on-campus administration of student assistance programs and rules. In line with the focus of the NACUBO membership, the Management of Student Aid concentrates on the proper management and oversight of funds as well as interpretations of regulatory requirements. In the words of the authors, the NACUBO manual has three main goals:

> o to enhance the understanding of the affects of student financial aid on their institution . . .;
>
> o to present the financial aid process . . .; and
>
> o to foster sound accounting and control mechanisms in postsecondary institutions.[10]

The NACUBO manual offers discussions of the legal ramifications and considerations associated with the management of large sums of federal, state and institutional dollars and emphasizes the need for the establishment of auditable procedures.

Management of Student Aid also discusses the inter-relationships of the many campus departments involved in student aid delivery and the role of the aid office in the overall institutional structure. The preparation of this manual by NACUBO is clear evidence that the aid officer is only one of many parties concerned with the management of student assistance on the campus level.

The NATTS manual, Student Financial Aid Tool Kit, thoroughly reviews the major administrative requirements for schools receiving student financial assistance. The Tool Kit provides copies of federal regulations and describes the procedures schools should follow to maintain compliance. The manual is especially valuable for NATTS member schools because of its attention to administrative problems specific to short-course and vocational institutions. For example, the manual provides detailed instructions for the construction of 12-month student budgets and packaging for shorter and longer periods than the traditional nine-month academic year.

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[10]National Association of College and University Business Officers, Management of Student Aid (Washington, D.C.: NACUBO, 1979).

Disseminating Student Aid Information

> The importance of information about financial aid programs and procedures should be obvious. Entry into the orbit of postsecondary education and access to the financial resources needed to successfully complete a course of study depend on good information systems. Good information can as easily encourage a potential student as poor information can discourage one. This problem is clearly magnified for the educationally and economically deprived and others who do not assume that they will be able to go on to a college or university.[11]

The needs of current and prospective postsecondary students for information about financial assistance are as critical today as they were in 1976 when the above statement was written. In fact, growth in the number and complexity of student aid programs since that time has intensified the need for accurate, reliable information. The federal government has played a prominent role in providing student aid information to students since 1976 when student consumer information requirements were implemented as part of the Higher Education Act of 1965.

Section 485 of the Higher Education Act requires all institutions participating in the Title IV aid programs to provide information to current and prospective students on financial aid programs offered by the school, details of the aid application process, and student rights and responsibilities under the programs. Postsecondary institutions are required, under Section 485, to provide personnel to counsel and advise students on aid eligibility and application.

Under the Higher Education Act, the federal government is not the primary provider of student aid information. Rather, the Act requires the Secretary of Education to:

> make available to eligible institutions descriptions of Federal student assistance programs including the rights and responsibilities of student and institutional participants in order to (1) assist students in gaining information through institutional sources, and (2) assist institutions in carrying out the provisions of this section, so that individual and institutional participants will be fully aware of their rights and responsibilitites under such programs.[12]

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[11]College Board, Unmet Needs: Report on Student Financial Aid Problems from the CSS Student Advisory Committee (New York: College Board, 1976), p. 9.

[12]Public Law 96-374, Section 485 (2C).

Thus, postsecondary institutions are designated as the focal point for information dissemination efforts. Secondary schools, the states and community organizations have also been involved in efforts to disseminate information on student aid programs.

Postsecondary institutions use a variety of means to inform students about financial assistance. A survey of financial aid offices conducted as part of a study sponsored by the Department of Education collected data on the methods used to disseminate aid information to students. According to the study:

> Over 90 percent of the institutions [surveyed] utilize brochures and/or pamphlets in order to inform students about financial aid. Financial aid fact sheets are furnished by most of the schools (76%), and many (60%) also publish information in student newspapers.[13]

The methods employed by postsecondary institutions to inform students of the aid available to them vary from campus to campus. The quality and quantity of information also varies depending on the talents, resources and initiative of the individual aid office.

In recent years, the task of disseminating accurate information to students has been complicated by the confusion surrounding the federal aid programs. Legislative controversies over the size and shape of the Title IV programs have caused uncertainty among students and parents as to the amounts and types of aid available. An article in the Chronicle of Higher Education described this problem:

> College officials fear that students have become unduly pessimistic about their prospects for receiving aid, and that eligible students may not even bother to apply, in response to President Reagan's highly publicized efforts during the past two years to curtail federal grants and loans.
>
> Even though Congress blocked most of those efforts, says Paul M. Orehovec, director of financial aid at the College of Wooster, "all the discussions about student aid over the last two years have left an indelible mark on the minds of parents and students."[14]

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[13]Applied Management Sciences, Program Management Procedures, vol. I, p. 11.7.

[14]Chronicle of Higher Education, "Lots of U.S. Financial Aid Still Available, Colleges Assure Students," April 20, 1983, p. 1.

Disseminating student aid information on the campus level is only one aspect of the overall process. Students and their families need information on the aid programs during high school in order to make informed decisions on postsecondary pursuits. High school counselors are both important providers of this information and key players in national dissemination efforts. Providing information at the high school level is often more complex than at postsecondary institutions because these students and their parents need information on future years which can be difficult to predict with certainty.

Counselors who provide information at the high school level face the additional challenge of trying to introduce students and parents to the complicated world of financial assistance and the financing of a postsecondary education. Fred Zuker, Dean of Admissions and Financial Aid at Pomona College, expounded his views on this topic at a hearing of the National Commission on Student Financial Assistance:

> Higher education and the financial aid system have become elaborate bureaucratic establishments replete with bewildering acronyms and paperwork. There is little wonder that most students and families enter this vast enterprise with some trepidation.
>
> It is the counselor's job, both at the secondary and postsecondary level, to help parents and students better understand how to make the system work for them.[15]

The problem of counseling secondary students on financial aid is compounded by the lack of a coordinated federal effort to provide information to high schools. The interest or concern of individual high school counselors, principals, district administrators and others and the information they have received are key factors in whether students receive proper information on the student aid that may be available to them. This, of course, results in unequal treatment, with some students and parents receiving comprehensive information while others are left to rely on contacts with postsecondary institutions, private publications or the media.

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[15]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982, p. 136.

CHAPTER II. AID DELIVERY FINDINGS

THE COST OF AID DELIVERY ON CAMPUS

In the fall of 1982, the National Commission on Student Financial Assistance authorized Touche Ross & Co., a national accounting and auditing firm, to collect detailed data on the administrative costs associated with the on-campus management of federal student aid funds.[16]

Nine postsecondary institutions were included in this study*--three public four-year institutions, two private four-year schools, two community colleges, and two proprietary institutions. Data on the empirical costs associated with delivering financial aid in fiscal year 1982 were collected from these institutions. Both direct and indirect costs incurred by these institutions were included in this study; no state or federal costs were included.

Costs were collected by category and were assigned to six major functional groups:

- outreach, application processing and counseling;
- need analysis and eligibility determination;
- packaging and awarding;
- reporting, regulatory reviews and program audits;
- accounting and collections; and
- other administrative functions.

Based on the analyses of the cost data and interviews with financial aid officers, observations were made on the functions

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*The limited resources and time alloted to the National Commission made it impossible to undertake a more ambitious national effort to assess the on-campus costs of aid management. The nine institutions were selected because they represented various institutional categories and approaches to aid delivery.

[16]Touche Ross & Co., Study of the Cost to Deliver Student Financial Aid on Campus (Washington, D.C.: National Commission on Student Financial Assistance, January 31, 1983).

and staffing patterns of aid offices, the costs of the delivery system components, and the management perspectives of aid officers. While some trends are apparent, a statistically valid national study would be the only way to draw hard-and-fast conclusions on this topic.

In terms of the average proportionate level of effort expended by the aid offices studied, the functions that require a "heavy" effort are outreach, counseling and application processing, and accounting and collection. Those requiring "medium" effort are need analysis, packaging and awarding funds, and other administrative activities (for example, personnel administration and planning). Reporting, regulatory reviews and program audits are ranked as "low" effort activities.

The relative levels of effort devoted to aid office activities vary according to institutional factors. Proprietary institutions, for example, appear to devote more effort to counseling activities. This may be caused by the monthly admissions patterns, short academic programs and resulting high student turnover rates that are common to proprietary schools. The greater the number of terms in an academic year (for example, quarters versus semesters), the more time the school spends on packaging and awarding funds activities.

The impact that the degree of aid office automation has on staffing levels is one of the most significant findings of this study. Institutions that are highly automated devote proportionally less staff effort than institutions that rely primarily on manual procedures. One of the institutions studied is located in the State of Pennsylvania, which provides a sophisticated set of automated financial aid services to its member schools.* The aid office at that school functioned far more efficiently than any other institution included in this study. The results of this study indicate that availability of state-subsidized services allows for substantial cost savings on campus.

Staffing levels in aid offices varied according to a number of factors. This study judged relative staffing levels in terms of the ratio of full-time equivalent personnel to aid recipients. Automation was identified as the most crucial factor in lowering the number of staff needed. Activities such as job placement and counseling were found to be highly

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*Automated services to financial aid offices are provided by the Pennsylvania Higher Education Assistance Agency (PHEAA). PHEAA provides services, including packaging, validation, information exchange and need analysis through on-line computer terminals in financial aid offices.

labor-intensive and thus led to greater staffing costs. Institutions with multiple campuses also required higher staffing levels. The centralization of aid office functions made these tasks much more labor efficient.

Generally, the campus financial aid office is highly labor-intensive. Institutions in this study reported that personnel costs accounted for from 57 percent to 89 percent of the aid office budget. The median was 72 percent. After personnel, the major operating costs of the aid offices were servicer charges for NDSL billing and collection, data processing, physical plant, and supplies and miscellaneous costs.

Student employees were found to be significant contributors to aid office operations. Budgetary and economic constraints were cited by aid officers as reasons for using student labor resources. Student employees are used primarily for clerical and secretarial support although many serve as peer counselors. Many of the students employed in aid offices are College Work-Study recipients. In this manner, the federal government is providing an additional subsidy to aid office operations.

In terms of function, aid offices spent the most money on accounting and collections activities. Outreach, counseling and application processing were the next most costly, followed by packaging and awarding.

Given the wide range of activities connected with the administration of the NDSL program, it is not surprising to find that it is the costliest program to administer on campus. Almost 65 percent of the costs for managing the NDSL program were related to billing and collecting on loans made in prior years.

In conclusion, the Study of the Cost to Deliver Student Financial Aid On Campus found that the Adminstrative Cost Allowance (ACA) paid by the federal government to institutions participating in the federal student assistance programs is inadequate to cover the costs incurred by financial aid offices. Even if the ACA is combined with the value of CWS workers in the aid office, the cost is not enough to cover aid office operations.

AID OFFICE RESPONSIBILITIES

The Touche Ross study of the cost of aid delivery raises a number of concerns regarding the ability of financial aid offices to deliver student financial assistance effectively. With cost pressures mounting in all sectors of postsecondary institutions, there is little hope that aid offices will be able to expand their operating budgets in order to improve their management capabilities. The scope of aid office activities has

been rapidly expanding and involves interactions with almost every segment of the postsecondary institution in which it is situated as well as numerous governmental and private entities.

In a paper prepared for the National Commission on Student Financial Assistance, National Education Management, Inc. (NEM) described the various interrelationships in which aid offices and officers find themselves.[17] This paper outlines over 60 offices, agencies, departments, divisions and constituencies with which the typical aid office must interact and coordinate its services. The paper identifies eight general groupings for those with whom the aid office must work:

- o scholarships and financial aid services;
- o outreach;
- o audits and program review;
- o student employment;
- o student services;
- o campus offices and departments;
- o state and local governments; and
- o the federal government.

While the nature and specifics of these relationships vary greatly from institution to institution, they all must be addressed in order to deliver student financial assistance properly.

For example, the group of topic papers under the subheading "campus offices and departments" describes relationships with other campus divisions that are involved in setting aid office policy, coordinating other institutional responsibilities and ensuring compliance with the rules and regulations governing the management of the student assistance programs. The campus departments involved in this process include:

Student Affairs Office	Recruitment Office
Registrar	Chief Executive Officer
Board of Trustees	Bursar/Chief Fiscal Officer

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[17]Larry Braxton and Tom Rutter, The Interactions of the Aid Office (San Diego, CA: National Education Management, Inc., March 1983).

Counseling Center	Data Processing Center
Academic Deans	Admissions Office
Campus Planning Office	Campus Personnel Office
Campus Postal Center	Campus Payroll Office
Loan Collection Office	Graphics/Publications Office
Veterans Affairs Office	Overseas Programs Office

A prime concern of the financial aid officer is that all members of the campus community who are involved in aid administration and information dissemination have accurate, reliable information on the programs and the resources of the aid office. The paper describes some of the problems that can occur when those involved in recruiting students are not fully informed:

> o Recruitment staff minimize the difficulty of the financial aid processes and overstate the availability of funds.
>
> o Recruitment staff are not technically proficient to do more than present a brief overview of financial aid processes.
>
> o The financial aid office is not sufficiently staffed to participate in external presentations on a regular basis.[18]

The authors recommend that:

> the recruitment office and the financial aid office compare scheduled activities and coordinate the involvement of both staffs so that students and parents, either individually or in group presentations, receive both a sound sales presentation . . . and an accurate description of the financial aid application/processing/awarding cycle.[19]

Coordinating the many sources of student aid is another major difficulty cited in this paper. Melding the different requirements and regulations of state-sponsored student assistance programs with federal rules and campus policies is of particular concern to many aid offices.

> A major problem within the larger state agencies is their prioritizing the needs of their own state programs without always considering the needs of the federal programs or the needs of campus financial aid

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[18]Ibid., pp. 2-3.

[19]Ibid., p. 3.

> administrators. In some instances this has resulted in [the] complication rather than simplification of the financial aid delivery system due to duplicate collection of information, requirements for additional forms and/or documentation, unrealistic application processing deadlines and additional reporting responsibilities.[20]

By the same token, the federal government has often been accused of developing its program rules and regulations without proper concern for the other participants in the delivery of student assistance. States, private sources and postsecondary institutions also contribute large sums of money to the student assistance pool and set their own rules governing the expenditure of those funds. Mr. Francis Keppel, Chairman of the National Student Aid Coalition, expressed his views on this topic at a hearing of the Governance and Administration Subcommittee of the National Commission on Student Financial Assistance:

> Since the federal government plays such a large role in general today in this area, it's rather easy to forget that there's probably two or three billion dollars worth of private money going into student financial support . . . . That becomes a very substantial factor in the overall national program and it's quite easy to get it out of focus.[21]

With the assistance and guidance provided by professional organizations and other members of the institutional administrations at their schools, financial aid officers have risen to the challenge of managing the myriad student assistance programs. As Mr. Keppel stated:

> Once you get all the way down at the other end of this [process], the Lord being with us, some guy gets a check. And the astonishing thing is, Mr. Chairman, the guy does get a check. I frankly think it's a testimony to the ingenuity of man.[22]

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[20]Ibid., p. 18.

[21]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, pp. 64-65.

[22]Ibid., p. 71.

PROBLEMS OF PROGRAM INSTABILITY

Perhaps no other area of aid office management has frustrated the delivery of student financial assistance more than problems associated with the instability of programs. Over the years the federal financial aid programs have experienced change in the areas of eligibility determination, need analysis, award levels, regulations and reporting requirements. Some of these changes have applied to all federal programs, while others have been specific to a single component. Whatever the cause, the effect has been the same--confusion on the part of aid officers, students and parents as to the current rules of the game. Implementing these changes invariably results in delays which ripple through the system and affect all of its participants.

In a letter responding to the Department of Education Credit Management Task Force's call for public comments on the student aid delivery system, Delores Cross, Director of the New York State Higher Education Services Corporation, summed up what she thinks are the consequences of program uncertainty and delays in issuing final program rules:

> Problems caused by funding shortfalls have been compounded by delays in every conceivable aspect of the delivery system including: final funding levels, family contribution tables, student award reports, campus payment reports, campus validation instructions, loans needs test forms, etc. How can access to higher education be provided when major program decisions are not known until October of an academic year? Confidence in stability and commitment is being severely undermined.
>
> Confusion and delay in the student financial aid delivery system frustrate students and parents, and turn many away from higher education. Unfortunately, financial aid delivery has taken on the appearance of a "shell game," undermining to a certain extent the advances that have been made in educational access and choice.[23]

Problems associated with program instability and changing regulations and requirements were a common theme of statements presented to the National Commission on Student Financial Assistance during its public hearings. Testimony from student aid officers, college business officers, state agency officials,

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[23]Letter from Delores Cross, New York State Higher Education Services Corporation, to Patrick Sherrill, U.S. Department of Education Credit Management Project, April 21, 1983.

students and others included references to their difficulty in coping with the uncertainty that has surrounded the federal student assistance programs in recent years.

Among the problems cited by members of the postsecondary community was confusion surrounding the validation requirements for the Pell Grant program. As part of its fiscal year 1983 budget submission, the Department of Education had requested funds to support the validation of all Pell Grant applicant-reported data. This request was denied by the House Appropriations Committee Subcommittee on Education, Labor, and Health and Human Services in January 1982. Despite Congressional rejection of this plan, the Department authorized the Pell Grant processor* to issue Student Aid Reports included a message to students that their information would need to be validated through use of tax return forms and other supporting documents. This controversy dragged on throughout the spring when Congress finally appropriated a reduced amount of money to cover the costs of validation, with the stipulation that the Department would not proceed with the 100 percent validation effort.

Even when this conflict was resolved, the Department had still not issued final validation rules for use by institutional aid offices. Institutions were unable to inform students of their Pell Grant eligibility until later that summer--well beyond the normal time-frame for notifying students of their Pell award levels. Aid officers were faced with having to perform final validation and calculation of Pell Grant awards during the summer months, which are normally their busiest time of the year. This type of confusion and delay regarding program rules detracts from the administrative efficiency of the delivery system. The ramifications of this type of situation were explained to the National Commission on Student Financial Assistance by Lola Finch, Director of Financial Aid at Washington State University and President of the National Association of Student Financial Aid Administrators:

> The problems that are created by such action impact negatively on students, parents, institutions, and particularly on the image of the financial aid office.

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*The processing of Pell Grant applications and the generation of student eligibility reports are conducted centrally by a private processor under contract to the U.S. Department of Education. Systems Development Corporation, located in Santa Monica, CA, is the current holder of the contract.

> It also I think is a concern in terms of the frequency of human error, working under these kind of situations. These errors then are discovered in program review audits, and when reported, begin to reflect negatively upon the programs and those who are trying to administer them.
>
> In reality, I feel most of these problems would be avoided if reasonable timeliness were used in announcing and implementing programmatic and administrative changes.[24]

Aid officers are not protected against errors caused by confused or untimely direction from the federal government. If overawards or miscalculations are uncovered in the audit or program review process, the institution is liable for returning those funds to the federal government no matter what the cause of the error. In effect, postsecondary institutions need some form of protection from the consequences of haphazard federal decision-making.

Program instability causes confusion among aid applicants and recipients, and their parents. As postsecondary aspirants attempt to make plans for college attendance, they need reliable information on the availability of funds to finance their education. The amount of student assistance that they may receive can have a great influence on their choice of a postsecondary institution--pulic or private, two-year or four-year. Stability in the aid programs, both from an administrative and funding viewpoint, is crucial to the ability of students and parents to plan a postsecondary career. High school counselors informed the Commission that recent uncertainties regarding funding levels compounded by administrative delays have made the process of deciding on postsecondary attendance very difficult for students and parents. These counselors report they have spent a lot of time in recent years both disspelling fears that the aid programs have been cut so severely that very few students are eligible for participation and explaining the reasons behind forms delays and the lateness of aid award notifications. Not only are students applying for aid in the academic year affected by these complications, but so are those planning to attend postsecondary institutions in future years.

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[24]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982, p. 12.

Jack Wright, a counselor at Franklin High School in Los Angeles, California, informed the Commission that:

> The time line for postsecondary planning on the secondary level does not occur in one month or even one year. Academic preparation for admission to a university transpires over a four- to five-year period. Therefore, if a student believes that federal cuts for education means no money for me, the motivational energy needed to achieve admission is lost.[25]

Problems resulting from delayed or confused regulations end up costing postsecondary institutions thousands of dollars each year. Because aid awards often are not finalized before the start of the academic year, many schools allow students to enroll before they have the resources to meet their tuition, room and board expenses. Mr. Raymond Renner of the University of Cincinnatti outlined the fiscal implications of this policy:

> Each year, especially with the recent significant increase in Pell validation requirements, there are large numbers of students (over 50%) registering for classes who have not received an approved Pell award. To assist these students, the institution puts them on a 'financial hold,' i.e., not canceling their registration but allowing them to attend classes until their Pell award is received. In September of 1982, of the three thousand students who applied for Pell, two thousand had either their paperwork delayed by the federal government or there was a validation problem. The institutions spent literally hundreds of hours trying to solve each case problem. Losses because of this problem occurred in several ways:
>
> > (a) Cash was not drawn via the letter of credit until the validation and other problems were solved. The institution used its own cash to support the program during the period paperwork was delayed.
> >
> > (b) Numerous students ultimately did not receive a Pell award, dropped out of school, never completed validation and did not pay their tuition charge. The university incurred the loss of funds in these instances.[26]

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[25]Ibid, p. 128.

[26]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, pp. 169-170.

For the 1982-1983 academic year, Mr. Renner claims that these deferrals will cost the University of Cincinnati approximately $12,500.

Aid officers have also commented that confusion regarding rule changes is compounded by the lack of an organized effort to disseminate the details of new or revised regulations properly. The Department of Education has not been performing its responsibility to notify program participants promptly and accurately of changes as they occur. In some ways, this function has been delegated to the National Association of Student Financial Aid Administrators (NASFAA). NASFAA has always made a practice of reporting changes in program rules in its membership newsletter. In many cases, NASFAA has disseminated this information before the Education Department. Sometimes this has caused confusion among the participants in the delivery system, not all of whom receive the NASFAA newsletter.

Obviously, the Department of Education has the prime responsibility for providing this information to those involved in the delivery process--postsecondary institutions, high schools, state grant and loan agencies, private servicers, application processors and others. It is integral to the efficient operation of the aid delivery system that all of these parties are notified at the same time and that they receive the same information.

TECHNOLOGICAL INNOVATIONS

The use of automated systems to carry out various segments of the student aid delivery process has increased dramatically in the last ten years. Where aid offices once relied on "hard copy" files as the basis for their accounting and delivery operations, computer tape, microfiche and on-line terminals are becoming commonplace in aid offices and state agencies across the nation. The use of automated data processing systems and advanced technological capabilities have enabled many aid offices meet the demands of their increased administrative responsibilities more efficiently and effectively.

Computerized systems have been employed for procedures as simple as recordkeeping and as complex as aid packaging. Aid offices use automated systems to generate aid award letters, track students' academic progress, adjust student need analysis reports, create NDSL repayment schedules and produce federal and state reports. Automated data files allow for easier preparation for institutional audits and for the constant checking of aid expenditures and funds balances. These systems have been very useful in coordinating aid office operations with other campus offices, such as the business office and the registrar.

While a number of postsecondary institutions have invested in the hardware and software necessary to carry out the automated processing of student financial assistance, many more have not been able to avail themselves of this new technology. The initial costs of such a system make these resources unattainable for many smaller institutions and for those whose operating budgets leave no room for this type of major capital investment. Some institutions have partially automated systems that perform recordkeeping functions or track funds control. Aid offices often find themselves competing with other campus departments for access to the central campus computer system. In many cases, the aid office must submit information to the campus computer center, which then enters the data into the master computer system. Obviously, aid offices that must go through this two-step process will have limited access to the data and will be able only to make limited use of it. Aid offices that have been able to install on-line systems, in which a terminal in the aid office provides direct access to the computer system, have distinct advantages in the capabilities they can employ in data processing.

Irvine's New Financial Aid Management On-Line Users System

The University of California at Irvine has one of the more advanced aid offices in the nation in terms of the application of computer systems to financial aid processes. The Irvine campus serves over 6,000 student aid recipients including undergraduates and medical and graduate students. The system developed by the staff of the UC Irvine Aid Office has been named INFAMOUS, for Irvine's New Financial Aid Management On-Line Users System. The INFAMOUS system allows the aid office staff at UC Irvine to access all documents and files relating to a particular student's financial aid status, summaries of general student aid funds accounts, and computer tapes supplied by need analysis processors. The system can easily produce listings of students receiving various types of student assistance and can access other campus office data banks to verify class standing, enrollment and other information on individual students.

Otto Reyer and Hiroshi Ueha, the Director and Assistant Director of Financial Aid at Irvine, describe the INFAMOUS system in detail, and comment on the flexibility of the INFAMOUS system as follows:

> From a user's perspective, INFAMOUS has been designed for easy input and operation. Screen designs for the terminals are updated annually based on information provided by the staff most directly involved with a particular screen format. The staff can select from a variety of screen formats depending on the desired

> information. After the user enters the system a choice of display documents will appear. A staff member can either input the required data for the student or update existing data.[27]

Of course, not every institution can be expected to operate such a system. The aid office at UC Irvine is fortunate in having the strong support of the University Chancellor to pioneer more efficient management of the aid programs. One of the administrative rules at the Irvine campus that helped the aid office in developing this system is the freedom given to each campus office to supervise its own data processing activities without having to funnel all requests through the central campus computer center. This allows the aid office's data processing specialists to concentrate solely on the needs of the aid office and to be answerable directly to the aid director.

Pennsylvania Higher Education Assistance Agency

An alternative to postsecondary institutions making major investments in computer hardware is sharing resources among participants in the delivery process. Perhaps the most innovative approach to providing institutions access to computerized systems has been taken by the Pennsylvania Higher Education Assistance Agency (PHEAA).

Under the PHEAA system, computer terminals are installed in institutional financial aid offices. These terminals are hooked up by telephone transmission to the PHEAA central computer. Aid officers can access numerous pieces of information on students, fund balances, disbursements and records maintained by PHEAA. PHEAA describes the three primary purposes of the remote computer terminal system as:

> o the conservation of time, personnel and funds through ready accessibility of data obtainable from a central source;
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> o the quick and accurate transfer of such data with the resulting elimination of the need for sizable amounts of paper documentation; [and]

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[27]Otto Reyer and Hiroshi Ueha, "The University of California, Irvine is INFAMOUS," Journal of Student Financial Aid, November 1982, p. 30.

- an increased and improved service to the student and his college or university through a unique financial aid packaging and recordkeeping system.[28]

Services that can be performed through the use of the remote terminals include need analysis, validation correction, packaging, developing student budgets, report preparation, monitoring of state awards, maintenance of student address files, electronic mail transfers with PHEAA or other terminal users, and the design and printing of award letters. The terminals save both time and money for aid officers and personnel. The ability to make corrections and reassess student need caused by changes in circumstances allows aid offices to provide quick answers to student concerns about changes that may occur in their eligibility or aid packages. Additionally, the access that aid offices have to detailed information on aid recipients allows them to conduct in-house research to determine, for example, the impact that proposed program changes would have on their students.

Since 1972, when the system was first introduced, over 90 schools have installed PHEAA remote terminals. In addition, approximately 30 lenders in the state have installed terminals to interface with PHEAA and institutions on GSL-related operations. PHEAA has greatly expanded the services available to schools with remote terminals. Since PHEAA is a processor under the Multiple Data Entry (MDE) component of the federal aid programs, it can provide complete need analysis reports directly to the schools very quickly on the 225,000 students who annually use PHEAA forms to apply for aid.

The PHEAA remote terminal system represents a significant commitment on the part of a state agency to provide advanced services to the postsecondary institutions and lenders in its state. While institutions pay to rent the terminal, purchase program packages from PHEAA, and pay the cost of the telephone hookup to Harrisburg, their cost is kept to a minimum. PHEAA has absorbed the bulk of the cost by purchasing the computer hardware and devoting staff resources to developing the programs and operations guidelines for use of the system.

Aid officers fortunate enough to have access to the PHEAA system report that they have a much greater ability to cope with changes in program rules than their colleagues. The ability to repackage aid quickly and accurately according to new criteria or to alter need analyses overnight eliminates much of the on-campus confusion that normally results from these types of changes. This in turn enables aid officers to communicate the

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[28]Information materials on the PHEAA Remote Computer Terminal System and Services.

impact of such changes to students more effectively and accurately. Students are able to avoid the pitfall of basing decisions on rumor and speculation, as so often has been the case in recent years.

PELL GRANT PROCESSING

Currently, all applications for Pell Grant awards are processed centrally by a contractor to the U.S. Department of Education. This contractor receives Pell Grant applications forwarded directly by students as well as data provided from private processors who receive Multiple Data Entry (MDE) applications. MDE allows students to complete one application (most commonly provided by the College Scholarship Service, the American College Testing Program or PHEAA) for processing. The MDE processor then sends student and family data to the Pell processor. All students applying for Pell Grants receive a Student Aid Report (SAR) produced by the Pell processor. This report contains a Student Eligibility Index (SEI) which, when combined with information on the student's cost of attendance and course load, is used to compute the amount of a student's Pell Grant.

In addition to the initial processing of Pell applications, the central processor is responsible for administering all corrections to the applications. Errors in forms completion, inconsistencies in reported information, and changes in family information all require that corrections be made to the Pell application and that a new SAR be produced. Thirty to forty percent of the more than 5 million Pell applications received each year must be resubmitted to the central processor. The corrections process is time consuming, labor-intensive and costly for the processor and the federal government. Through the use of complex computer programs, the central processor "flags" a certain percentage of Pell applications for validation. SARs flagged for validation contain a printed message informing the student that he or she will need to produce proper documentation of the items on the application before processing can be completed. Validation is then performed by the campus aid office, and data are forwarded to the central processor.

While the central processing of Pell Grants provides for tight administrative control of the Pell delivery system, it also causes delays and frustrations for many involved in the process. The need for students to recycle application corrections through the central procesor causes delays in determining their eligibility and complicates their postsecondary decision-making. The Pell system does not allow for the flexibility that characterizes the award of other

student aid funds. Leon King, testifying on behalf of the California Association of Student Financial Aid Administrators, pointed out the difference between the processing of Pell corrections and of other federal aid programs:

> the student [must] return his application or his SAR, as we call it, the Student Aid Report, for it to be recalculated by the national processor. So for our campus-based funds, we are allowed to make the adjustments but for the Pell Grant we are not.
>
> We feel that the national processor is not capable of being sensitive to the needs of students in the same manner that the financial aid officer who is talking across the table with students.
>
> By allowing the financial aid officers their privilege in all programs, then we will certainly alleviate a lot of suffering that we have caused--that the present system causes students with the delays--and sometimes many months delays--before funds can be put in the hands of students because they did not actually understand how to fill out applications, or their own circumstances changed since they had completed the application.[29]

There is an overall need in the student aid delivery system to coordinate the processes involved in determining awards and eligiblity for federal student assistance. Increasingly, students and aid officers have been dealing with additional forms, eligiblity criteria, and award notices. Problems are encountered in trying to assemble all the various sources into aid packages for students. Differences in timing, processing time and processors are further complications. There is no doubt that students are alienated by this procedure and that some drop out of the Pell Grant corrections cycle before their award is finally processed. Even errors that occur due to keypunch or other technical error at the processor must be corrected through resubmission of the application. Aid offices are unable to act on behalf of students to rectify problems and can only prod the student to submit his or her correction so that the information can recycle back to the aid office as soon as possible.

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[29]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982, p. 43.

Micheileen Doran, Director of Admissions and Financial Aid at Marymount College, summed up her frustrations with the Pell processing system at a hearing before the Senate Education Subcommmittee in July 1982:

> While the basic program is sound, and the entitlement feature has enabled countless students to obtain access to postsecondary education, the dual system of determining program eligibility for the campus-based programs and the Pell Grant Program has caused unnecessary confusion among students and parents and has hampered institutions' abilities to properly coordinate student aid resources.[30]

THE NEED FOR FINANCIAL AID INFORMATION

In order to meet the goals of the student aid programs and to ensure that all students who are eligible have access to student financial assistance, information on the programs must be widely disseminated. As the programs have evolved since 1965, so, too, have efforts to publicize their existence. Providing information on the programs has become a more demanding task as the programs have grown in size and complexity.

Several national and state sponsored studies have attempted to gauge the importance of financial aid information for current and prospective postsecondary students. Results from the National Longitudinal Study of the High School Class of 1972 (NLS-1972) indicate that financial factors are very important in decisions regarding postsecondary attendance. Approximately one-third of those surveyed as part of this study who did not plan to enroll in a postsecondary institution reported that they could not afford to attend college. This reason was cited by an even larger proportion of blacks (44 percent) and low income persons (38 percent). The NLS-1972 also found that almost one-fourth of those withdrawing from postsecondary schools did so for financial reasons. Thirty percent of the respondents reported that financial difficulties interfered with their classroom studies.[31] Follow-up surveys of the NLS-1972 have shown that financing issues continue to be important to students as they decide whether to remain in school or further their postsecondary careers.

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[30]Materials accompanying Lola Finch's testimony at the National Commission on Student Financial Assistance, Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982.

[31]U.S. Department of Education, National Longitudinal Study of the High School Class of 1972 (Washington, D.C.: U.S. Government Printing Office, 1974).

The High School and Beyond Study, a national longitudinal report conducted by the Department of Education's National Center for Education Statistics found that 73 percent of the 58,000 1980 high school seniors surveyed planned to use some form of financial aid to pay for their education. The study found that one-fourth of those who planned to use financial aid did not know enough about the federal student aid programs to answer survey questions. Minority and low income respondents seemed to demonstrate the lowest levels of awareness about financial aid programs.[32]

Another national study, conducted in 1979, revealed that many students do not even apply for financial aid if they perceive themselves to be ineligible. This study, conducted by the U.S. Department of Education, surveyed undergraduate postsecondary students nationwide and found that:

> Of those students who did not apply for financial aid, almost 90 percent felt that they were ineligible for assistance. Moreover, the importance of this reason remains constant across institutional types and income levels.[33]

The fact that low income students did not believe that they could qualify for student aid indicates that they may not have received adequate information on the aid programs and their eligibility criteria. By not attempting to apply for assistance, these students may be missing opportunities to gain help in financing their postsecondary educations.

Although direct correlations are not possible, this type of behavior could contribute to the underenrollment of minority and low income students in postsecondary education. In a paper prepared for the National Commission on Student Financial Assistance entitled "Changes in College Participation Rates and Student Financial Assistance: 1969, 1974, 1981," Dr. John Lee reported that college attendance rates for students from the lowest income backgrounds has been declining steadily. On the other hand, the paper shows that higher income students are increasing their probability of receiving aid awards.[34]

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[32]U.S. Department of Education, National Center for Education Statistics, High School and Beyond Study (Washington, D.C.: U.S. Government Printing Office, 1983).

[33]Applied Sciences Management, Study of Program Management Procedures in the Campus Based and Basic Grant Programs, Summary Final Report, prepared for the U.S. Department of Education, June 1980, p. 21.

[34]John Lee, Changes in College Participation Rates and Student Financial Assistance: 1969, 1974, 1981 (Washington, D.C.: National Commission on Student Financial Assistance, 1983).

The major federal initiative to provide counseling services to minority and disadvantaged students has been the TRIO programs. Since 1966, the five TRIO programs have served more than 3 million students. Currently, 1,300 TRIO-sponsored projects are serving more than 500,000 students. The Talent Search program provides information on college opportunities and assists prospective college students and parents in completing financial aid and admissions forms. The Upward Bound and Special Services projects concentrate on providing information and improving the quality of education students receive. Projects on campuses assist students in adjusting to postsecondary challenges and supplement the counseling services offered by the colleges where they are based. Education Opportunity Centers provide information on postsecondary opportunities to unemployed adults and recipients of public assistance.

INFORMATION AT THE SECONDARY LEVEL

Knowledge about the financial aid programs and their eligibility standards is acquired through a process that begins at the secondary level. Several studies of aid information needs have pointed to the importance of providing information to students during the years when they are contemplating their postsecondary options. A 1982 survey of high school seniors in New Jersey indicated that 64 percent of the respondents received most of their information on aid programs from high school counselors. Only 17 percent contacted the financial aid offices at schools they considered attending for this type of information. Other portions of the New Jersey study concluded that students are scarcely aware of the aid programs available to them. Moreover, these students are not familiar with the details of the programs (for example, eligibility standards, sources of the funds, responsibilities) or hold inaccurate assumptions about student aid.[35]

One high school counselor who provides information on college opportunities and financial assistance informed the National Commission on Student Financial Assistance that the quality and quantity of counseling for postsecondary-bound students varies greatly at the high school level:

> My concern is where does the student and his parents go for assistance when there is no one trained to help them. Not all high schools have full-time college counselors. Many of my peers have added

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[35]Linda Gearl, "NJHEAA Report on Financial Aid Survey" (Trenton: New Jersey Department of Higher Education, Office of Student Assistance, August 1982).

> reponsibilities such as teaching of classes, regular counseling loads, supervision, athletic supervision responsibilities, et cetera.[36]

This counselor goes on to describe the especially critical nature of providing counseling at the secondary level for minority and low income students.

The federal government has been involved in educating high school personnel on the details of the student aid programs and application process. The Student Financial Aid Training Program, funded by the U.S. Department of Education's Office of Student Financial Assistance, has sponsored a series of workshops in recent years for high school personnel. These workshops provide information on general provisions of the aid programs, requirements, application procedures and counseling hints. This past fall, for example, workshop participants received a resource package including materials on increasing parent involvement, media materials, scripts for visual presentations, and a reproducible guide for students and parents.

Although these workshops are free and are held in various locations around the country, they still do not reach the majority of high school counselors. Counselors often encounter difficulty in obtaining release time from their school responsibilities or money to cover their expenses in traveling to these workshops.

One method of assisting high school students in their postsecondary decision-making is to provide access to accurate information on their eligibility for student assistance and the true costs of college attendance. The 1980 Amendments to the Higher Education Act of 1965 included a provision for developing a "pre-eligibility Federal financial aid form." This form would be made available at no charge to students to assist in determining their eligibility for federal programs.[37] Unfortunately, this program has not been funded by the Congress.

The College Scholarship Service (CSS) has initiated an effort to provide a pre-eligibility determination service to students. For a $7 fee, students submit financial data to the CSS Early Financial Aid Planning Service which estimates the student's expected family contribution and informs the student of the aid sources available at the four postsecondary schools he or she may select. The report does not estimate student aid packages or the potential mix between self-help and grant aid that the student may receive.

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[36]Testimony of Richard Bowe, National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Anaheim, California, December 14, 1982, p. 116.

[37]Public Law 96-374, Section 483(c).

CHAPTER III. CONCLUSIONS AND RECOMMENDATIONS

The system for delivering student financial assistance has grown in size and complexity since the passage of the Higher Education Act of 1965. As new aid programs have been designed and others modified, the delivery system has been adapted and recreated to meet the demands of managing more dollars and serving more students. Simultaneous with the expansion of the federal aid programs has been the development of numerous state, institutional and private sources of assistance for students. The ability of the aid delivery system to integrate these various sources of assistance successfully has been severely challenged in recent years.

Growing paperwork responsibilities have affected the operations of all of those involved in delivering student financial assistance. Students and parents are also faced with increasing numbers of forms to complete and procedures to follow in the aid application process. Financial aid officers in postsecondary institutions have been loaded down with increased responsibilities and administrative tasks. At the same time, changing program rules and insufficient time to adapt to new regulations have seriously complicated the tasks of those administering the programs.

THE NEED FOR A MASTER CALENDAR

CONCLUSIONS

The delivery of financial assistance to current and prospective postsecondary students involves a cooperative effort between the federal government, states, private organizations, lenders, postsecondary institutions, students and parents. The determination of a student's eligibility for student assistance and receipt of an aid package involves the coordination of the financial resources of all of these parties. Although the federal government is the largest single provider of direct student assistance, it cannot function in isolation of the other parties in aid delivery. Decisions made at the federal level invariably affect the operations and policies of all of those involved in delivering student aid.

In academic year 1981-82, the federal programs provided over $6 billion in financial aid to postsecondary students, or 60 percent of the direct aid received by students. States, private sources, and postsecondary institutions contributed the remaining 40 percent, totaling over $4 billion. Postsecondary institutions, alone, provide $2.8 billion in student aid, over one-fourth of the national total. Today, the provision of financial aid to postsecondary students is a true "partnership."

On the administrative side, this partnership has experienced a great deal of strain in recent years. Delays in federal decision-making, changes in federal rules, and varying appropriation levels for federal programs have combined to complicate the delivery process for all providers of student assistance. Problems with the federal programs result in confusion and inconsistencies at the state and local levels. Since federal aid serves as the foundation upon which student aid packages are built, students cannot be notified of the amount and type of aid they will receive until federal rules are finalized. In order to complete their aid packaging, aid officers need to know:

- o the eligibility and award schedules for Pell Grants;
- o the family contribution schedule for the campus-based programs;
- o the amount of their campus-based funding;
- o the current year validation requirements and procedures; and
- o the eligibility and awarding criteria for the Guaranteed Student Loan program.

If this information is not available before aid applications are received by the aid office--usually starting in February--the institution will be unable to provide consistent, accurate information to students on the financial aid that they can expect to receive.

This problem is especially critical for entering students, those considering transferring to another institution, and those whose financial circumstances have changed since they last applied for aid. Even those students who are continuing at the same institution and whose financial conditions have not been altered need to know if they can expect to receive the same aid package as in previous years. The ability of students to plan for the academic year in August or September is severely limited if reliable information on student aid is not available.

Problems of late notification to students, especially first-time students, erode the effectiveness of the aid programs in achieving their stated goals. William Ihlanfeldt, Chairman of the Federation of Independent Illinois Colleges and Universities, informed the U.S. House of Representatives Subcommittee on Postsecondary Education that because of late notification:

> families are inhibited in their financial planning, for it is common for students not to receive announcement of their award until near or after they have graduated

> from secondary school. By this time, the vast majority of students have already decided where they intend to pursue their education beyond secondary school. As a result, the current calendar, instead of broadening individual horizons and educational opportunities--the hope of the Senator whose name the program bears--limits the effect of the Pell Grant program mainly to providing access at the local level.[38]

Congress has recognized that delays in decisions on student aid regulations have a deleterious effect on the programs and on those whom they serve. The Education Department is currently mandated to present a final family contribution schedule to Congress by April 15 of the year prior to the academic year in which it will be used (for example, a final schedule published on April 15, 1983 will be used to determine eligibility for the 1984-85 academic year). If this schedule is not delivered on time, the life of the schedule used in the previous year is extended. In this way, some degree of predictability is maintained in the programs.

The timetable for submitting student aid applications and for receiving notifications of awards is compressed into a very short period. Even under the best of circumstances, federal student aid applications are not made available until after January 1 of the academic year. This gives students and parents only four to five months to complete the forms and receive financial aid packaging details from schools before decisions and deposits are required for fall enrollment. Breakdowns in the system, lack of adherence to even this timetable, and demands on aid delivery participants can cause delays in this schedule and force students to choose a postsecondary institution without complete financial information to guide their decisions. Aid officers are often caught in the middle of this process; they try to provide final information to students, yet they cannot guarantee the amount of aid that students will receive.

The National Commission on Student Financial Assistance believes that the agencies within the federal government that are charged with the administration of the student financial aid programs must take responsibility for maintaining order and stability within the programs and among the program participants. Toward this end, the Commission is convinced that a schedule for the completion of major tasks in the delivery process will add the necessary order to allow for the proper administration of the programs, avoid unnecessary cost to the participants, and reduce confusion among the partners in aid delivery.

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[38]U.S. House of Representatives, Hearings of the Subcommittee on Postsecondary Education, January 28, 1982.

In order to assure the effective delivery of student financial assistance, the Commission recommends that the Master Calendar be included as part of the Higher Education Act of 1965, as amended. Thus, the dates in the calendar would have to be met through the cooperative efforts of the Education Department, the Office of Management and Budget (OMB), the postsecondary community, and the Congress or last year's rules or forms would be used. In addition to the dates specified in the calendar, the Commission believes it is crucial to set a deadline whereby no changes can be made in program rules or eligibility requirements less than 12 months before the period of instruction for which these rules would apply. Importantly, this would preclude proposing changes to eligiblity formulas--for example changing the definition of an independent student--that could change the data elements or the structure of the applicaton forms and thus delay their distribution or processing.

In order for the deadlines established in the calendar to be met, the Department of Education will have to work cooperatively with OMB to submit proposals and obtain clearances before the deadline dates. The dates set forth in the calendar represent the end of specific processes including OMB clearance, where it is required.

It is the responsibility of the Congress to ensure that the administration complies with the calendar and to oversee the delivery process to ensure that it is functioning smoothly and efficiently. If changes in the calendar are needed, they can be accomplished through amendments to the Higher Education Act.

RECOMMENDATIONS

- ESTABLISH A "MASTER CALENDAR" THAT INCLUDES SPECIFIC DATES FOR THE SUBMISSION OF FAMILY CONTRIBUTION SCHEDULES FOR PELL GRANTS, CAMPUS-BASED PROGRAMS, AND GUARANTEED STUDENT LOANS; THE DISTRIBUTION OF AID APPLICATION FORMS; THE FINALIZATION OF CAMPUS ALLOTMENTS FOR NDSL, CWS AND SEOG FUNDS; AND FINAL CHANGES IN REGULATIONS THAT APPLY FOR A GIVEN ACADEMIC YEAR.

- PROGRAM REGULATIONS SHOULD BE ISSUED IN FINAL FORM NO LATER THAN ONE YEAR BEFORE THE ACADEMIC YEAR FOR WHICH THEY WILL APPLY. DECISIONS SPECIFIC TO AID APPLICATION FORMS OR THE DATA ELEMENTS TO BE INCLUDED IN THE FORMS SHOULD BE FINALIZED EIGHTEEN MONTHS PRIOR TO THE START OF THE APPLICABLE ACADEMIC YEAR.

- THE COMMISSION RECOMMENDS THAT THE FOLLOWING MASTER CALENDAR FOR THE DELIVERY OF FEDERAL STUDENT FINANCIAL ASSISTANCE BE INCLUDED AS PART OF THE HIGHER EDUCATION ACT OF 1965 AS AMENDED:

MASTER CALENDAR FOR THE DELIVERY
OF FEDERAL STUDENT FINANCIAL ASSISTANCE

Task to be Performed	Completed By*
First Meeting of the Education Department's Technical Committee on Forms Design	February 1
Family Contribution Schedules Published in Federal Register	April 1
GSL Need Analysis Elements and Need Analysis Formula Published as an NPRM	June 15
Family Contribution Schedules Final	July 1
Distribution of Institutional Application for Campus-Based Funds (FISAP) to Institutions	August 1
Application for Federal Student Assistance (AFSA) and MDE Data Elements and Instructions Final	August 15
GSL Need Analysis Elements and Need Analysis Formula Finalized	August 15
Forms Delivered to Servicers and Printers	September 1
GSL Need Analysis Elements and Need Analysis Formula Published in Federal Register	September 1
GSL Eligibility Information Distributed to States, Lenders, and Institutions	October 1
Pell and MDE Forms and Instructions Printed	October 1
Pell and MDE Forms, Instructions, and Training Materials Distributed	November 1

*All dates refer to the year preceeding the period of instruction beginning July 1. For example, forms are distributed on November 1, 1984 for courses beginning after July 1, 1985.

Task to be Performed	Completed By*
Final Date for Submission of the Institutional Application for Campus-Based Funds (FISAP)	November 1**
Edited FISAP and Computer Printout Sent to Institutions	December 1
Tentative Award Levels Received by Institutions	February 1
Campus-Based Appeals Process Completed	March 15
Final Award Notifications Sent to Institutions	April 15
Pell Grant Authorization Letters Received by Institutions	June 1

*Institutions should be encouraged to submit the FISAP as soon as possible. The Education Department should process applications as they are received to ensure that edited FISAPs are distributed in accordance with the specified timetable.

If the deadlines included in the calendar are not adhered to, the rules or forms used in the previous year would remain in effect for the current year.

Congress should also give serious consideration to extending the time frame for the student aid application process. This would involve allowing students to submit aid applications before January 1 of the relevant academic year. In order to implement this system, students would be able to use family income from the prior year.

DISSEMINATING REGULATORY CHANGES

CONCLUSIONS

In assessing the problems associated with changes in regulations and program requirements, one of the key areas of concern is the ability to secure accurate, final copies of these rules. Problems have been cited in the dissemination of final rules to program participants.

RECOMMENDATIONS

- o THE U.S. DEPARTMENT OF EDUCATION MUST ASSUME THE PRIMARY RESPONSIBILITY FOR DISSEMINATING FINAL COPIES OF REGULATORY CHANGES TO ALL PARTIES IN THE DELIVERY SYSTEM. DISSEMINATION OF REGULATORY REVISIONS SHOULD BE ACCOMPLISHED QUICKLY AND SHOULD INCLUDE "LAY LANGUAGE" INTERPRETATIONS OF THE RULES. ADDITIONALLY, THE DEPARTMENT SHOULD ISSUE A COMPREHENSIVE CATALOG OF REGULATORY RELEASES SO THAT ALL INTERESTED PARTIES WILL BE ABLE TO DETERMINE IF THEY HAVE A COMPLETE SET OF REGULATIONS RELATING TO STUDENT ASSISTANCE.

The Department may continue to use its "Dear Colleague" letters and the Office of Student Financial Aid (OSFA) Bulletin as its prime means of dissemination and should update its mailing lists annually.

USING TECHNOLOGICAL RESOURCES

CONCLUSIONS

Advancements in data processing capabilities and their application to student financial assistance have eased the workload for those financial aid offices and state agencies that use these resources. However, many delivery system participants cannot afford the initial investment to establish an automated system.

It has been stated in testimony before the National Commission on Student Financial Assistance that almost all participants in the delivery process can benefit from the use of advanced technologies. While not a panacea, the use of automated systems can simplify the operations of aid offices, provide greater access to information on individual recipients, and allow aid offices the freedom to adjust aid awards and need analyses when circumstances warrant such action. As one aid officer commented:

> We now have new technologies that can assist in the reconfiguration of the student aid delivery system. We should use these technologies to establish a new system before the current system breaks.[39]

Growing numbers of students served by the programs, program rule changes, audit specifications, management requirements and program participants have made the aid delivery system too complex to be efficiently administered through manual means.

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[39]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, p. 41.

The encouragement and development of state-of-the-art technological applications to student aid delivery should be a priority of all sectors of student aid delivery.

The cost of these systems must be shared by the program participants. The system operated by the Pennsylvania Higher Education Assistance Agency exemplifies how states can take the initiative in sharing technological resources with postsecondary institutions and others involved in the delivery of student financial assistance.

RECOMMENDATION

- THE FEDERAL GOVERNMENT, THE STATES AND POSTSECONDARY INSTITUTIONS SHOULD WORK COOPERATIVELY TO ENCOURAGE THE USE OF AUTOMATED SYSTEMS FOR DELIVERING STUDENT FINANCIAL ASSISTANCE.

Reporting and delivery components of the system should be redesigned to take advantage of automated capabilities. Tape exchanges, electronic mail, the standardization of reporting forms and other facilities should be used to the extent practical.

The federal government should work with states and postsecondary institutions to share information and to encourage student aid applications of advanced technology. Efforts to redesign existing computer hardware and software for delivering student aid or to enhance the computer resources of aid delivery participants should be encouraged by all parties in the delivery of student financial assistance.

PELL GRANT PROCESSING

CONCLUSIONS

The system for processing Pell Grant applications needs to be reviewed in order to improve its own internal efficiency and to reduce the burden that it places on students and financial aid officers. The current system is not sufficiently integrated with the operations of the other aid programs. Separate reporting requirements, application processing and management rules cause confusion among those involved in the delivery process. Students, especially, are alienated by this process and are often caught in the midst of administrative inefficiencies.

The use of a central processor for Pell Grants creates duplicative work on the campus level in both application processing and reporting. The correction of errors in application data is a time-consuming process for students and

aid administrators and results in significant delays in awarding Pell Grant dollars to students. The processing of corrections at the central facility is largely a manual process that is both costly and inefficient.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD EXAMINE THE PELL GRANT PROCESSING SYSTEM IN ORDER TO IMPROVE PROGRAM EFFICIENCY AND EXPEDITE THE DELIVERY OF PELL GRANT AWARDS TO STUDENTS. CONSIDERATION SHOULD BE GIVEN TO GRANTING MORE FLEXIBILITY TO POSTSECONDARY INSTITUTIONS IN THE PROCESSING OF PELL GRANTS ESPECIALLY IN THE AREA OF CORRECTIONS

Measures to redesign the Pell Grant processing system could include:

- allowing postsecondary institutions to process corrections to Pell Grant applications;

- coordinating the reporting requirements and forms for Pell Grants and the campus-based federal student aid programs;

- automating all functions of the central processor;

- redesigning Pell Grant applications into a machine-readable format; and

- allowing postsecondary institutions to determine student eligibility for Pell Grants based on data received from Multiple Data Entry (MDE) processors with subsequent verification from the central processor.

STUDENT AID INFORMATION

CONCLUSIONS

The availability of accurate, comprehensive information on student financial assistance is crucial to students and parents who are making decisions about postsecondary education. Access to this information is important during and prior to enrollment in a postsecondary institution. Changing rules, eligibility criteria and award levels for federal student assistance programs have placed an even greater burden on those involved in disseminating information on student aid programs.

The quality and quantity of information on student assistance varies from state to state and from school to school. While federal efforts to provide postsecondary students and prospective students with information on the aid programs

have increased in recent years, there are still gaps, confusions and misconceptions among those needing this information. In fact, the Department has reduced the number of copies it publishes of its annual basic student guide to aid programs. In some instances, initiatives on the parts of states, student aid officers and high school personnel have provided valuable supplements to federal efforts. These personnel also are the major disseminators of information on nonfederal sources of student assistance.

Decisions regarding postsecondary attendance are often made early in a student's high school career or even in junior high school. Students at these levels also need access to reliable information on the aid that may be available to them. Secondary school personnel report that the provision of information on student aid to students and parents at this level is largely left up to to the initiative of individual high school counselors or guidance officers. This means that the dissemination of information at this level is inconsistent.

The TRIO programs have been a valuable supplement to overall federal efforts to disseminate student aid information. Their concentration on minority and disadvantaged youth has helped provide information to those least likely to have access to financial aid data through more conventional means.

Information on changes in the aid programs needs to be disseminated in a more systematic fashion in order to ensure accuracy and minimize confusion. Problems have arisen when media accounts of changes in aid programs conflict with reality or with information being disseminated by aid officers and counselors. This type of circumstance can undo much of the good accomplished through federal and local information dissemination efforts.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD ASSUME THE ROLE OF COORDINATOR OF EFFORTS TO DISSEMINATE INFORMATION ON FEDERAL STUDENT ASSISTANCE PROGRAMS. EFFORTS SHOULD BE MADE TO COOPERATE WITH STATES TO DISSEMINATE INFORMATION ON ALL SOURCES OF STUDENT ASSISTANCE, BOTH FEDERAL AND NONFEDERAL.

- SECONDARY SCHOOLS AND SCHOOL DISTRICTS SHOULD BE INCLUDED IN FEDERAL INFORMATION DISSEMINATION EFFORTS. THEY SHOULD RECEIVE ALL INFORMATION MATERIALS PRODUCED BY THE DEPARTMENT OF EDUCATION AND SHOULD BE ISSUED STUDENT-ORIENTED DESCRIPTIONS OF AID PROGRAMS THAT CAN BE DISTRIBUTED TO STUDENTS AND PARENTS.

- THE DEPARTMENT OF EDUCATION SHOULD WORK WITH THE GUIDANCE AND ADMISSIONS COUNSELORS AND OTHERS AT THE SECONDARY SCHOOL LEVEL TO DETERMINE THE NEEDS OF SECONDARY SCHOOL STUDENTS AND COORDINATE TRAINING AND THE DISSEMINATION OF STUDENT AID INFORMATION. ORGANIZATIONS REPRESENTING COUNSELING PERSONNEL SHOULD BE CONSULTED BY THE DEPARTMENT AS A PART OF THESE EFFORTS.

- THE DEPARTMENT OF EDUCATION SHOULD CONSIDER IMPLEMENTING THE "PRE-ELIGIBILITY" DETERMINATION SYSTEM DESCRIBED IN SECTION 483(c) OF THE HIGHER EDUCATION ACT SO THAT STUDENTS AND PARENTS CAN HAVE MORE ACCURATE INFORMATION REGARDING THE FINANCIAL ASSISTANCE FOR WHICH THEY MAY BE ELIGIBLE.

- THE TRIO PROGRAMS SHOULD CONTINUE TO PROVIDE STUDENT AID INFORMATION TO DISADVANTAGED AND MINORITY STUDENTS AND TO REACH OUT TO STUDENTS WHO DO NOT ATTEND A POSTSECONDARY INSTITUTION IMMEDIATELY AFTER HIGH SCHOOL.

MONITORING THE DELIVERY SYSTEM

CONCLUSIONS

A crucial factor in the proper functioning of the delivery system is the maintenance of communication between the Department of Education, the Congress, the postsecondary education community and others involved in the delivery of student assistance. This type of communication has been conducted informally throughout the history of the student aid programs and has become an essential part of the design of program rules in recent years.

With the establishment two years ago of the National Student Aid Coalition, this communication has become even more a part of the decision-making processes of Congress and the Department. The Coalition is comprised of representatives of organizations and associations and members of the public concerned about student aid programs and their administration at the federal, state, campus and student levels. The Coalition has offered comments on family contribution schedules, the definition of an independent student, and the majority of regulatory changes proposed by the Department of Education. The Coalition also conducts research on topics of interest to its membership.

The nature of the student aid partnership makes it imperative that federal decision-makers do not conduct business in a vacuum, without the input of the postsecondary community. The delays in the delivery system, the problems they have caused participants in the delivery process, and the general air of confusion that has surrounded the delivery of student assistance

all are evidence of the need for open channels of communication between the Department of Education, the Congress and the participants in the student aid delivery system.

OPTIONS

Two options for monitoring the student aid delivery system have been identified by the National Commission's Subcommittee on Governance and Administration.

Informal Monitoring

The Secretary of Education and the Congress should continue their efforts to monitor the student aid delivery system more closely. By working cooperatively, the executive and legislative branches can oversee the operations of the delivery system, work to overcome problems that arise, and develop refinements to the system so that it can operate in the most efficient and effective manner possible.

Both the Department of Education and the Congress can expand upon their current practices in order to monitor the delivery system more closely. Congress should continue to use its oversight function to hold public hearings and to authorize investigations of specific aspects of the delivery system. The upcoming Reauthorization of the Higher Education Act of 1965 presents Congress with an opportunity to examine thoroughly the entire delivery process. Congress can also monitor the concerns of the participants in the delivery system through normal channels of constituent contact. In recent years, especially, financial aid officers, state officials and others have not hesitated to contact members of Congress through the normal processes of representative government.

The Department of Education uses a variety of means to monitor the delivery system. The Department's efforts to study and analyze various delivery system components formally have yielded valuable information on the operations of the programs at the federal, state and campus levels. The results of these studies have often led the Department to develop regulations to remedy inefficiencies or correct problem areas. Whenever the Department issues proposed regulations, it hears from delivery system participants through the public comments it receives. The comment period that follows the issuance of new regulations allows those affected by rules changes to send suggestions to the executive branch.

The Department may choose to expand these communications by issuing public notices before regulations are formally proposed. This would allow the community to recommend solutions in areas that the Department has identified as needing attention and to suggest nonregulatory responses to perceived problems.

In this context, the Department of Education should enhance its communications with the Congress concerning the functioning of the student aid delivery system. By the same token, the Congress should keep the Department informed of the comments it receives from constituents and work with the Department to remedy problems.

Advisory Panel

The Congress should establish a student aid delivery advisory panel. This panel would serve to monitor the operation of the delivery system and coordinate the efforts of the federal, state, institutional and private partners in the delivery of student aid. This panel would advise Congress and the executive branch and conduct research as needed on issues pertaining to the delivery of student financial assistance.

The coordination of efforts to monitor the delivery process would be formalized through the establishment of an advisory panel that would provide both the Congress and the executive branch with comments, analyses and proposals on the student aid delivery system. This advisory panel would monitor the student aid delivery system to ensure that it is:

- operating as efficiently as possible;
- treating all participants equitably (that is, not placing an unequal administrative burden on any one sector); and
- maintaining overall stability and predictability.

The panel would also ensure that no aspect of the delivery process is inhibiting student access to the programs.

The panel would not be charged with the development of public policy; rather it would consult with Congress and the executive branch on delivery matters. The panel would be expected to point out the potential consequences of federal actions, especially as they relate to the state, institutional and private partners in the delivery system. In general, the panel would serve as a valuable resource for federal policy-makers.

Panel members would be chosen because of their technical knowledge of the delivery system and not as representatives of specific interest groups. The panel would not be asked to advise on appropriations or overall program policy matters. A primary objective of the panel would be to ensure that the administrative and technical concerns of all delivery system participants (for example, postsecondary institutions, lenders, state grant and loan agencies) be communicated to Congress and the executive branch.

This advisory panel should be established by Congress under the Higher Education Act of 1965. It should be established for a set time period (possibly five years) at which time it would need to be reauthorized. The panel should consist of 12 to 15 members chosen from various segments of the delivery system including postsecondary institutions, state agencies, lenders, secondary schools, students, parents, the private sector and the public at large. Appointments could be made by the President in consultation with the Secretary of Education with the approval of Congress. Alternatively, a portion of the appointments could be delegated to the House, the Senate and the Executive. The terms of panel members should be staggered so as to promote diversity while at the same time ensuring continuity.

The advisory panel should receive an annual appropriation to cover the costs of a two- or three-member research staff, an executive director, clerical support and travel for panel meetings. The staff of the advisory panel would serve at the pleasure of the panel.

SECTION II. MANAGING THE GUARANTEED STUDENT LOAN PROGRAM

CHAPTER IV. GSL MANAGEMENT ISSUES

INTRODUCTION

The Guaranteed Student Loan (GSL) program, as authorized by Title IV of the Higher Education Act of 1965, is intended to provide access to low-cost loan capital to students pursuing a postsecondary education. In the 1981-82 academic year, the GSL program provided over 3.5 million students with approximately $8 billion for this purpose. Since 1965, more than 18 million loans have been issued totaling more than $30 billion.

The system for disbursing Guaranteed Student Loans is very complex and involves many participants.* The federal government does not directly provide the capital for loans made to students. Rather, it has established a network of incentives to private lenders so they will provide money for students. Loans may be issued by traditional lenders (banks, savings and loans) or others, such as insurance companies, credit unions and postsecondary institutions. These lenders receive three key incentives for agreeing to lend under the rules of the GSL program.

o Special allowance payments are paid to lenders in order to make up the difference between the low (currently nine percent) interest rate charged for Guaranteed Student Loans and the cost of money to the lenders.

o The amount of interest that accrues on loans while the student remains in school is paid quarterly to the lender by the federal government.

o Lenders are guaranteed for 100 percent of the remaining loan principal and all interest accrued if the borrower defaults on his or her loan. Default claims are subject to verification that the lender was diligent in trying to collect the loan.

Over 95 percent of Guaranteed Student Loans are issued under the auspices of guaranty agencies. These agencies act as the primary guarantor of loans in a state or territory, recruit

*A detailed discussion by those participating in the delivery of Guaranteed Student Loans is contained in National Commission on Student Financial Assistance, "Guaranteed Student Loans: A Background Paper" (Washington D.C.: NCSFA, March 1982).

lenders, provide assistance to borrowers and lenders, and assume many of the administrative reponsibilities connected with the program's operations. These agencies may be state agencies, state-chartered entities of various forms, or nonprofit organizations operating within a state.

State guaranty agencies are the most comprehensive source of data and analysis in the GSL program. The Quarterly Reports required of guaranty agencies provide the Education Department with information on lending volume, distribution, defaults and agency operations. Agencies are paid an Administrative Cost Allowance (ACA) from the federal government and receive an insurance premium from borrowers. While some agencies receive state appropriations and income from investments, the ACA and the insurance premium provide the major portion of an agency's financial support.

Postsecondary institutions are playing an increasingly crucial role in the proper administration of the Guaranteed Student Loan program. Institutions are responsible for calculating the need of loan applicants, certifying students' eligibility, determining the maximum amount students may borrow, monitoring the academic progress and full-time standing of loan recipients, notifying lenders when students' status make them ineligible for in-school benefits, and counseling student borrowers before the loan is issued and prior to their leaving school.

As was noted in the discussion of the Study of the Cost of Aid Delivery on Campus (see Chapter II), postsecondary institutions incur significant costs in order to fulfill their role in the GSL delivery process. Proper administration of the GSL program on campus involves close cooperation between the financial aid office and the registrar's office. Although some lenders provide counseling for GSL recipients, institutions are charged with primary responsibility for advising students of the rights and responsibilities associated with their loans and for ensuring that students understand their repayment obligations.

Lenders are the key players in the GSL delivery process. Without the participation of approximately 12,500 lenders nationwide, the GSL program would not be able to serve the large numbers of postsecondary students that it does today. The vast majority of federal funds spent for the GSL program are paid to lenders. It is of prime importance that the federal government exercise stringent management control over its lender payment system. More than $2 billion a year are paid by the federal government for in-school interest and special allowance claims. The Department of Education must maintain a system that is flexible enough to meet the needs of a very diverse group of lenders yet centralized enough to be easily verifiable and auditable.

The Department of Education is the agency charged with ensuring that federal monies spent under the GSL program are spent properly and that participants in the process do not defraud the federal treasury or abuse the funds they receive. Monitoring the flow of funds spent for the GSL program has presented an historical challenge to the Department of Education. Because of the decentralized nature of the various components of the delivery process, the Department has had difficulty in obtaining adequate verification of claims and validating the expenditures it authorizes.

In a report released in 1981, the General Accounting Office observed that:

> Throughout the (GSL) Program's existence, the Government has not developed an automated information system that monitors adherence by participants to program rules and regulations, or that properly accounts for the expenditure of program funds.[40]

GSL DEFAULTS

The default rate on Guaranteed Student Loans has been a source of concern throughout the history of the program. The costs for GSL defaults are borne directly by the federal government which "guarantees" lenders against losses incurred on loans that are not repaid by students. Reducing student loan default rates has been a major objective of several federal initiatives to improve the management of the GSL program.

A Guaranteed Student Loan is considered to be in default when a borrower falls at least 120 days behind in his or her payments. In order to file a claim to recover the federal guarantee on a defaulted loan, the lender must prove that it has exercised "due diligence" in the collection of the loan. Due diligence means that the lender has followed the normally accepted practices of the lending industry in originating, servicing and attempting to collect on the loan. A lender's claim is paid by the guaranty agency in the lender's area, the guaranty agency is then reinsured by the federal government. In this way, lender claims can be paid more quickly than if the federal government paid them directly. Almost all guaranty agencies are reimbursed for 100 percent of the default claims

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[40]U.S. General Accounting Office, The Guaranteed Student Loan Information System Needs a Thorough Redesign to Account for the Expenditure of Billions, # HRD-81-139 (Washington, D.C., U.S. General Accounting Office, Sept 24, 1981), cover page.

they pay. Those agencies whose default rates exceed 5 percent must absorb an increasing portion of default costs.* In 1982, the guaranty agencies were held responsible for less than one-half of one percent of the total paid out in federal guarantees on defaulted loans.

State guaranty agencies have been crucial players in the effort to keep GSL defaults to a minimum. The Education Amendments of 1976 included several provisions to strengthen the role of guaranty agencies in reducing default costs. Congress, at that time, expressed its belief that defaults could be controlled more effectively through a decentralized process. The high default rate associated with the centrally administered Federal Insured Student Loan program (FISL) demonstrated that trying to manage the program from Washington, D.C., was not the most efficient method for ensuring a low default rate.

The 1976 Amendments included several provisions to encourage the increased involvement of state agencies in the delivery and collection of student loans. The rate of reinsurance on defaulted loans was raised from 80 percent to 100 percent (contingent on low default rates). Agencies were authorized to receive a federal Administrative Cost Allowance (ACA) of up to one percent of their annual loan volume. This payment, which is subject to the audit verification of agency expenses, is intended to offset the costs of managing the federal loan program at the state level. The 1976 Amendments also empowered state agencies to retain up to 30 percent of the money they collect from borrowers whose loans have been defaulted. Previously, these monies were returned to the federal government to offset the costs of reinsurance. The 30 percent incentive payment, which cannot exceed the expenses associated with the agency's collections efforts, is designed to encourage stepped-up efforts to recoup the dollars paid out on default claims. A series of other incentives, including a five-year guarantee of 100 percent reinsurance for new agencies and federal "advance money" to offset start-up costs, were included in the legislation in order to spur the growth of existing agencies and the establishment of guaranty operations in states where they were lacking.

What has developed over the years has been a partnership aimed at reducing default rates and costs. While lenders primarily are responsible for the collection of defaulted Guaranteed Student Loans, they can turn to their respective

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*When the default rate in a guaranty agency's jurisdiction is more than 5 percent, it receives 90 percent reinsurance for the remainder of the fiscal year; when defaults reach or exceed 9 percent, an agency receives only 80 percent reinsurance.

guaranty agency for help in collecting from reluctant repayers. One of the most important services provided by these agencies is preclaim assistance. This involves assisting lenders in locating borrowers who are not responding to requests for payment and, in general, persuading borrowers to honor their obligations. Agencies work closely with lenders to assist them in designing their origination and servicing practices and provide materials and training to support participating lenders. The increased role of guaranty agencies and the resources they maintain have been key elements in the precipitous growth in the number of GSL lenders and recent increases in GSL volume, while at the same time keeping the default rate as low as possible.

Measuring the rate of Guaranteed Student Loan defaults has also been a source of controversy. In general, there are two ways to express the GSL default rate. The U.S. Department of Education reports that, as of 1981, the rate of default on all loans issued under the GSL program since its inception stood at 12.3 percent. This represents a decline since 1980, when the rate was 12.5 percent. The federal government also reports a "net" default rate. This rate is computed by subtracting the amount of money collected from defaulted borrowers through the efforts of guaranty agencies and the federal government from the amount of default claims paid in that period. This calculation is similar to "low rates" that are commonly employed by private lending institutions. In 1980, this rate stood at 5.9 percent and dropped to 5.8 percent in 1981. Neither of these default rates actually reflect the current state of GSL collections. In a Policy Brief prepared by the American Council on Education a method is presented for estimating an annual GSL default rate.

> In 1981, for example, approximately $4.6 billion of loans were in active repayment status. During 1981 the federal government paid about $260 million for default-related GSL claims and it collected about $80 million in previously defaulted loans. Based on these figures, the annual GSL default rate--net of federal payments for default divided by loans in repayment--was 3.8 percent in 1981.[41]

The ACE Policy Brief presents a comparison between GSL default rates and those found on commercial loans, usually less than one percent to two percent. Such comparisons are difficult to make,

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[41]American Council on Education, Policy Brief, Student Loan Default Rates in Perspective (Washington, D.C.: ACE, February 1983), p. 3..

however. The circumstances of the origination of student loans and commercial loans (mortgages, auto loans) are vastly different. Principles of good lending and sound business practices require that commercial loans are issued to borrowers who:

- o can pass established tests of creditworthiness;
- o can produce security for their loans; and
- o can demonstrate their financial ability to meet the terms of repayment.

Student loans, on the other hand, are issued to borrowers who:

- o have little or no credit history;
- o have little or no assets to be used as loan collateral; and
- o have no foreseeable means of financial support.

The idea of the GSL program is to provide access to loan capital for students and prospective students who would not be able to borrow on their own. In fact, it is the risk associated with lending to these individuals that makes the federal guarantee such a crucial element in lenders' decisions to participate in the GSL program.

Supporters of the Guaranteed Student Loan program argue that due to the necessity to lend to students without regard for credit history or ability to meet repayment terms, a certain number of loans will invariably be defaulted on. This is the logical consequence of providing wide access to Guaranteed Student Loans. There is clear evidence, however, that improvements in the origination, servicing and collections practices of lenders and the assistance of guaranty agencies can go a long way towards reducing the rate of default on student loans.

CHAPTER V. GSL FINDINGS

ANALYSIS OF GSL BORROWERS

As part of its efforts, the National Commission on Student Financial Assistance has employed a newly created data source on Guaranteed Student Loan borrowers: the State Guaranty Agency Loan Guarantee Record Dump (the State Dump Tape). The data collection effort to compile this file was carried out as a joint project of the National Council of Higher Education Loan Programs (NCHELP) and the U.S. Department of Education in 1980 and 1981. The Commission, in cooperation with NCHELP and the Department of Education, has undertaken a detailed analysis of this tape.

The creation of this tape represents a major stride in efforts to better understand the impact of the GSL program on borrowers. The tape will prove very valuable to future efforts to analyze and gain a better understanding of the GSL program and its participants. Never before has a comprehensive national student borrower data base been available with which to assess or develop policy options.

In order to assemble the highest quality data file, strict edit checks were performed on the data submitted by the guaranty agencies. Only those records that contained certain key pieces of data and whose data fell within acceptable ranges were included in this analysis. From a total of nearly 5 million records, a core of 2.7 million were retained for study purposes.

The results of the analysis of the State Dump Tape are expressed according to several general loan characteristics:

- Loan repayment status by state agency;
- Loan repayment status by year of birth of borrowers;
- Loan repayment status by last academic year of the borrower;
- Loan repayment status by year of last loan;
- Loan repayment status by the elapsed time between the last loan and the borrowers current status;
- Loan repayment status by cumulative loan size;
- Loan repayment status by geographic region.

At a later point in the analysis, the State Dump Tape was merged with data that provided the type of lender who made the loan, the size of that lender's GSL portfolio, the current holder of the loan and the type of postsecondary institution last attended by the borrower. Additionally, the tables produced from these analyses have been published in terms of the number of borrowers and the dollar amount of Guaranteed Student Loans they represent.

Data on the sex, race and income of the borrowers were not collected as part of this effort. In some ways, this limits the scope of the analyses that can be performed with the State Dump Tape. The data provide insight into the characteristics of borrowers whose loans are in default but do not provide answers to questions of why these borrowers defaulted.

Past studies of default rates and patterns of defaults have also failed to address adequately the behavioral factors associated with default. Recently, guaranty agencies, secondary markets and lenders, aided by enhanced data processing capabilities, have begun to collect and evaluate more detailed information on GSL borrowers. In some cases, this is being done to determine if correlations exist between certain lending practices (for example, pre-origination counseling, written versus oral presentation of materials) and the rate of default. Because the average loan is not repaid for five, seven or more years after it is made, the results of these studies may not be available for some time to come. In future years, it will be very valuable to assess the data collected by lenders, servicers and guaranty agencies with the goal of using them to make informed decisions regarding the administrative rules of the GSL program and the rights and responsibilities of the participants in the delivery of Guaranteed Student Loans.

The results of the analyses of the State Dump Tape confirm and belie some popular assumptions regarding patterns of GSL defaults. Several significant elements were found to correlate with higher rates of default:

- o loans made by the largest GSL lenders;
- o loans made to students attending proprietary and two-year schools;
- o the early years of borrower repayment; and
- o loans made by credit unions.

While the ablility to make definitive correlations is limited, there are some relevant explanations for these findings.

The higher rate of default among loans made by the largest GSL lenders is evidence that these lenders issue GSLs to a more diverse population of borrowers than the average lender. Also, over three-quarters of the loans included in the analysis were made by the two largest categories of lenders. Large lenders are used as lenders of last resort in some states, lending to students who would not otherwise have access to Guaranteed Student Loans. Research conducted by the Sources of Funds Subcommittee of the National Commission on Student Financial Assistance reveals that these lenders are often the prime means of GSL access for proprietary and first-year students who may be denied loans by lenders with more modest GSL portfolios.

The relationship between attendance at proprietary and two-year colleges and a higher rate of default has been confirmed in data collected on both the NDSL and the GSL programs. In the State Dump Tape analysis, borrowers who attended proprietary schools defaulted at a rate of 17.51 percent and two-year college students defaulted at a rate of 18.57 percent. The default rate for all borrowers in the State Dump Tape was 12.16 percent.

The borrowers in the State Dump Tape showed a greater likelihood of defaulting in the early years of repayment. This part of the analysis suggests that the pressure on borrowers to repay their loans is greatest in the first years of trying to meet repayment responsibilities. This may be due to the fact that the earnings of postsecondary graduates increase dramatically over the years after they have left school.* Loan payment plans, however, are generally comprised of fixed payments over a five- to ten-year period. Lending plans that involve increased or ballooned payments during the later years of repayment may help to reduce the overall rate of default. The federal savings under such a plan could be offset, though, because of the increased special allowance that would need to be paid on loan principles that are reduced at a slower rate.

The correlation between credit union loans and higher rates of default does not lend itself to easy explanation. Credit union loans included in the State Dump Tape were likely to default at a rate of 22.73 percent, as compared to a 12.16 percentage for all loans. Credit union loans totaled only six percent of the loans included in the State Dump Tape.

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*For a thorough discussion of the relation between borrower earnings and ability to repay student loans, see the National Commission on Student Financial Assistance, "Study of Procedures to Eliminate the Guaranteed Student Loan In-School Interest Subsidy" (Washington, D.C.: NCSFA, February 1983), Chapter IV.

A number of other factors included in the default rate analysis showed no direct correlation with an increased propensity to default. The analysis could not identify differences in default rates between loans held by the original lender and those sold to a secondary market. Similarly, borrowers of different age groups, those whose loans were issued by postsecondary institutions as opposed to more traditional lenders (that is, banks), and borrowers who received their loans during various years of GSL program operations did not exhibit patterns of higher default.

Interestingly, the size of a borrower's cumulative debt did not correlate with a greater likelihood of default. Borrowers who leave school with the highest cumulative loan debts are often those who have completed four years of undergraduate study or some level of graduate work, or both. These students also have the greatest earnings potentials of any group of GSL borrowers. Thus, they may find it considerably easier to repay their loan obligations than their two-year and proprietary counterparts or those who do not complete a degree or certificate program. The critical nature of the earnings of borrowers at the start of repayment (six months to a year after leaving school) is underscored by the previously reported higher rate of default in the early years of repayment.

VARIANCE IN ADMINISTRATIVE REQUIREMENTS

Management practices associated with the Guaranteed Student Loan program vary for numerous reasons. Some practices employed by lenders, guaranty agencies, postsecondary institutions, and the federal government may be directed at regulating the flow of federal dollars in the program, ensuring the efficient delivery of GSL funds, and accounting for the expenditure of public monies. Other practices may be designed to reduce the rate of borrower defaults, provide information to borrowers, or manage the interrelationships between the various partners in the delivery of student loans.

Numerous management practices are specified by the federal government as part of the regulations governing the Guaranteed Student Loan program. As with all federal programs, those parties that administer federal funds must follow specific rules to ensure that money is properly spent and that their practices can be properly audited by the appropriate federal agency.

The administrative rules governing the Guaranteed Student Loan program are complicated by the number of parties involved in the delivery process. Individual guaranty agencies can expand upon the basic rules set by the federal government and specify additional administrative rules to be followed by those disbursing or providing capital for loans under their

jurisdiction. While the majority of rules are consistent among states, there is a certain degree of variance in the procedures specified by guaranty agencies. Some of this variance is attributable to the requirements of the states in which these agencies operate. The fact that rules governing GSL management must be followed by lenders and postsecondary institutions with different internal administrative policies further complicates this situation.

The forms that are required of the participants in the delivery of Guaranteed Student Loans illustrate the complications of program variance. Forms are used for many purposes in GSL delivery. To begin the loan delivery process, students complete an application form. This form may be uniform across a given state or may be specific to the lender to whom the student has applied. Certain parts of the form, such as the need analysis specifications and information disclosure requirements, are required by the federal government. Other items on the form may be included to conform with the requirements of local guaranty agencies, state banking statutes or the practices of specific lenders. Students who apply for admission to schools in different states may need to apply for student loans in those states using forms that require varying amounts and types of information. New York State, for example, asks for data on the applicant's bank account, while Missouri and Washington require detailed information on the student's indebtedness. In addition, cosigners, personal interviews and other predisbursement requirements vary from state to state.

Lenders also experience confusion regarding the forms they must complete and process. Guaranty agencies do not adhere to a specific format in their requests for information from lenders. This can cause confusion and add extra costs for lenders who provide Guaranteed Student Loan capital in more than one state.

The procedures guaranty agencies use to indicate their approval of a loan application also vary. According to a report submitted to the National Commission on Student Financial Assistance by Citibank:

> Some guarantors such as FISL and Washington [State] stamp the approval on the top right corner of the application . . . California stamps the reverse side of the application in the approval process. New York and USAF issue a separate piece of paper . . . [The Higher Education Assistance Foundation] attaches the approval to the Promissory Note.[42]

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[42]Steven Biklen, Policy and Procedural Variations Among Guarantee Agencies (New York: Citibank [New York State], 1982), p. 2.

The promissory note that must be signed by all GSL borrowers looks different in almost every state, although each state must adhere to the same federal criteria. Due diligence specifications, agency reporting requirements, refund procedures, and repayment schedules also vary among the states.

DEFAULT-RELATED PRACTICES

There are numerous administrative practices associated with the Guaranteed Student Loan program that can be considered default-related, that is, aimed at avoiding loan defaults. Lenders, servicers, postsecondary institutions and guaranty agencies each have a stake in keeping default rates low and a role in that effort.

The very nature of the Guaranteed Student Loan program dictates that there will be some degree of loan defaults. By making credit available to students who would not qualify for loans issued without the federal guarantee, the government must assume that a certain number of loans will be defaulted on. Kenneth Barber, Director of the Tennessee Student Assistance Corporation (TSAC) commented on this topic at a hearing of the the National Commission on Student Financial Assistance:

> If loans are insured, some borrowers will default, if loans are uninsured, lending will not occur. . . .
>
> As a practical matter, restriction of loan access to accomplish lower default rates ranges from politically difficult to impossible. While it may be possible for some lenders participating in the program to deny credit on the basis of type of school, default rate by school, customer relationship, family income, or the results of credit scoring methods, there must be some lenders prepared to provide general loan access.[43]

Mr. Barber goes on to stress that there are certain measures that can be taken to reduce loan defaults that do not conflict with the goals of the GSL program. The State of Tennessee allows lenders to deny loans to students who have histories of bad credit. Also, cosigners have been required on all loans insured by TSAC since it was founded. Mr. Barber claims that the cosigner requirement enhances the chances of collecting on loans that have been declared to be in default. First-time borrowers in Tennessee are required to have a personal interview during which their rights and responsibilities are explained to them.

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[43]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, pp. 119-20.

The Kentucky Higher Education Student Loan Corporation (KHESLC) recently adopted a series of policies aimed at reducing GSL defaults. These policies would restrict lending to students at schools with historically high default rates and deny secondary market access to lenders whose loans default at a high rate. These rules apply only to loans that are made directly by the KHESLC or purchased by the KHESLC as part of its secondary market operation. According to officials with the KHESLC, this accounts for approximately 95 percent of the loans made to Kentucky students.

Under the KHESLC rules, access to secondary market services and direct lending would now be cut off for:

o loans made to students by lenders whose default rate exceeds 10 percent;

o loans made by lenders whose loans to a particular postsecondary institution have a default rate of 10 percent or more; and

o students at postsecondary institutions where the default rate exceeds 15 percent.

These rules were implemented in March 1983, but the rule regarding institutional defaults will not be enforced until September 1983. Schools and lenders whose loan portfolios do not exceed $100,000 are exempt from these regulations. Lenders and schools affected by these rules may appeal to the Board of Directors of the KHESLC.[44]

Although on the surface this policy seems well-directed, it may result in the denial of access to Guaranteed Student Loans to eligible students in Kentucky. Students attending schools where others have not repaid their GSLs at an acceptable rate in the past may not be able to secure adequate financing. Lenders can be expected to be reluctant to issue loans when they cannot count on reliable access to a secondary market. This is especially true of loans made to first-year students and of small loans (under $2,000).

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[44]Regulations in Effect for the Kentucky Higher Education Loan Corporation, Administrative Register, Section 15 KAR 1:020, March 1, 1983, Frankfort, KY, vol., 9, no. 9, pp. 1003-4.

REGULATORY ENFORCEMENT

The federal government has the prime responsibility for monitoring and enforcing the rules governing the Guaranteed Student Loan program. Through audits and program reviews, the Department of Education assesses the compliance of participants in the delivery of Guaranteed Student Loans and evaluates claims for payment of special allowances, in-school interest, default claims and administrative cost allowances.

Some participants in the GSL system have complained in recent years that the government has placed too much emphasis on "technical compliance" with GSL rules rather than the overall impact of their practices. One example, cited by Lawrence Hough of the Student Loan Marketing Association (Sallie Mae) during testimony before the National Commission's Governance and Administration Subcommittee, illustrates this type of situation. In this instance:

> the student borrower is delinquent by 90 days and he begins to make payemnts again . . . and a year or more elapses in which every payment is made on time. Under conventional installment loan processing at the bank, the bank has long since recognized him as a current borrower and he's not being treated as a 90-day delinquent. He's made 12, 15, 18 payments. We have loans that have been denied for claim because the borrower, after a year and a half of payments, fell behind and this time went the 120 days--he missed four payments. We submitted [this loan] for claim and the claim was denied because the total of 150 days in his most recent delinquency plus 90 from two years ago equals 240 days. And that's more than 210 [the maximum time allowed to submit a default claim]. . . . Lenders can't understand that frivolous administrative approach and that is where the program appears to be heading.[45]

This approach on the part of the federal government could lead to lender dissatisfaction with the GSL program and reluctance to issue student loans. Guaranty agencies that have honored claims such as the one cited above may be stuck with the bill for insuring these loans and be unable to collect the

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[45]National Commission on Student Financial Assistance, Transcript of Proceedings of Governance and Administration Subcommittee Hearing, Lexington, Kentucky, February 16, 1983, pp. 99-100.

reinsurance they counted on from the federal government. In general, the strict application of these rules in cases where a lender has adhered to due diligence practices, and in fact has reinstated a delinquent borrower, does not contribute to the overall efficiency of the program. It may indeed have the opposite effect, causing lenders to place more emphasis on the technicalities of regulatory compliance rather than on the encouragement of borrower payments.

CHAPTER VI. CONCLUSIONS AND RECOMMENDATIONS

The conclusions and recommendations of the National Commission on Student Financial Assistance concerning the management of the Guaranteed Student Loan program focus on four major objectives:

- o reducing the rate of default among Guaranteed Student Loan borrowers;
- o clarifying/refining administrative procedures;
- o reducing federal default costs; and
- o gaining a more thorough understanding of the characteristics and behavior of GSL borrowers.

While these goals often can be achieved through similar means, some policies may address only one of these goals.

The conclusions and recommendations in this section concern improvements in the Guaranteed Student Loan program as it is currently structured.

ROLE OF GUARANTY AGENCIES

CONCLUSIONS

The role of guaranty agencies in the proper management of the Guaranteed Student Loan program is of primary importance. States whose guaranty agencies were established in the early years of the program have historically been superior managers of Guaranteed Student Loans; the establishment of guaranty agencies where none was previously in operation has resulted in the improved delivery and availability of student loans. Guaranty agencies play crucial roles in keeping default rates low, ensuring student access to loans, recruiting lenders for the program, recovering money from defaulted borrowers, and providing data on program operations and participants. These services have been developed through a very important series of federal incentives that are included in the Title IV statute.

The efforts of guaranty agencies have contributed greatly to minimizing federal costs for loan defaults. By providing preclaim assistance to GSL lenders, these agencies have helped avoid default claims. Once claims have been submitted, the diligence of guaranty agencies has resulted in the return of

- o reasons why borrowers default;
- o other student aid received by borrowers;
- o the cumulative amount of borrower debt from all student loans;
- o the amount of principal returned before default;
- o the amount of in-school interest and special allowance paid on each loan;
- o the dates of all changes in status;
- o all holders of the loans; and
- o all servicers of the loans.

In addition, the items included in the State Dump Tape should continue to be collected by guaranty agencies and assembled at the national level.

The collection and analysis of more detailed program data involve a long-term commitment on the part of all GSL participants. Because of recent advances in the data processing capabilities of nearly all guaranty agencies, detailed data on lending, defaults and borrower demographics do not have to be solicited centrally by the Department of Education. Rather, the Department, in cooperation with the Congress, the postsecondary education community, lenders and servicers, should work to define data collection needs and develop data files that can be updated annually.

The Department of Education must take the initiative in this effort. Data collection should be made a priority feature of the Department's automated GSL information system. It is important that all offices within the Department participate in specifying data collection needs so that policy, evaluation and budgetary questions can be answered.

Throughout this process, the Department of Education should identify persons and groups who can be advisors on technical and procedural matters. It is essential that the short- and long-term costs of assembling data are closely monitored. The costs of this data collection effort will need to be shared among all program participants; no one sector should be expected to bear an unfair portion of these expenses.

Data collection methods, such as the guaranty agency Quarterly Report form, should be expanded upon or modified as part of this effort. Wherever possible, tape exchanges and other automated means of data collection should be used because of their accuracy and cost efficiency.

The National Council of Higher Education Loan Programs (NCHELP) should take a leadership role in coordinating data collection initiatives at the agency and lender levels. Organizations representing various segments of the lending community can also contribute to this effort by sharing their expertise and identifying the information resources that lenders can use in collecting and transmitting data.

All participants in the GSL delivery process should have access to the data collected on the program. Over time, as the effects of legislative, regulatory and administrative changes are analyzed, the program can be modified to take advantage of its most efficient aspects, and less efficient processes can be identified and corrected. The ability to conduct more sophisticated empirical research on the Guaranteed Student Loan program will enhance decision-making and lead towards more informed judgments on program policies.

RECOMMENDATIONS

- o ESTABLISH A COORDINATED, NATIONAL EFFORT TO COLLECT INFORMATION ON THE PARTICIPANTS AND PROCESSES OF THE GUARANTEED STUDENT LOAN PROGRAM. DEVELOP A NATIONAL DATA BASE CONTAINING INFORMATION ON ALL OF THE PARTICIPANTS IN THE DELIVERY OF GUARANTEED STUDENT LOANS.

These data should be gathered with the cooperation of guaranty agencies, lenders, servicers, secondary markets and others. Data should be analyzed at least annually to ascertain patterns and characteristics of GSL lending, defaults, collections and servicing practices. Profiles of GSL borrowers and the reasons behind student loan defaults should be the primary goals of these analyses. The results of data analyses should be made available to Congress, the executive branch and GSL participants for use in the development of GSL policies.

COORDINATING INFORMATION AND REPORTING

CONCLUSIONS

The need to supervise the expenditure of federal dollars closely requires that administrators of Guaranteed Student Loans carefully report on their handling of loan funds. Currently, in addition to the federal government, state governments, guaranty agencies and others require regular reports from other participants in the GSL delivery process. The large number of report forms creates some problems for lenders, servicers and postsecondary institutions that must comply with their different formats, deadlines and data elements. Lenders and servicers that operate in different states face special obstacles in attempting to comply with various reporting requirements.

The organizations representing lenders, servicers and guaranty agencies should work together to develop standardized formats and requirements for reporting on student loan management. This will relieve some of the paperwork burden from GSL administrators, reduce the overall cost of program operations and encourage wider participation in the program from lenders and servicers. Standardizing and simplifying reporting requirements can also tie-in with the National Commission on Student Financial Assistance's call for better data collection and analysis. By assembling common information, local and national data bases can be more readily shared and exchanged. Throughout this process, the unique needs of local agencies and administrators should not be neglected. While the majority of elements on report forms can be made to conform, local rules and requirements will prevent total uniformity in this area of GSL administration.

Additionally, the application forms required of students have been found to vary greatly. Standardizing these forms will lessen confusion on the parts of students and parents and simplify the duties of financial aid offices.

RECOMMENDATIONS

- o THE FEDERAL GOVERNMENT, IN COOPERATION WITH GROUPS REPRESENTING GSL PROGRAM ADMINISTRATORS, SHOULD STANDARDIZE THE REPORTING FORMS REQUIRED OF GSL PARTICIPANTS. THE ELEMENTS AND FORMATS OF FEDERAL FORMS SHOULD BE USED AS MUCH AS POSSIBLE BY OTHERS COLLECTING INFORMATION FORM GSL PARTICIPANTS. STUDENT APPLICATION FORMS SHOULD ALSO BE STANDARDIZED.

REDUCING LOAN DEFAULTS

CONCLUSIONS

Lenders, servicers, guaranty agencies, postsecondary institutions and secondary markets have contributed to reducing the default rate on Guaranteed Student Loans. Those involved in originating, servicing and collecting student loans have tried to find the most successful means to encourage borrowers to meet their repayment obligations. Depending on the part of the process they are involved in and the characteristics of the borrowers whom they serve, the tactics employed in default reduction attempts may vary.

Means to reduce borrower defaults can be employed at many points in the lending process. During origination, it is the responsibility of the lender and the postsecondary institution to ensure that the borrower fully comprehends the rights and responsibilities associated with receipt of a Guaranteed Student

- o USE THE SERVICES OF GUARANTY AGENCIES TO CONTACT AND COLLECT FROM BORROWERS WHO ARE NOT FULFILLING THEIR REPAYMENT OBLIGATIONS; AND

- o USE TECHNOLOGICAL CAPABILITIES TO EXCHANGE INFORMATION WITH FEDERAL, STATE AND LOCAL AGENCIES TO LOCATE MISSING BORROWERS.

- o LENDERS, SERVICERS AND GUARANTY AGENCIES SHOULD COLLECT MORE DETAILED INFORMATION ON THE EFFECTIVENESS OF VARIOUS ADMINISTRATIVE PROCEDURES. THIS INFORMATION SHOULD BE EXCHANGED TO DEVELOP STANDARDS OF PRACTICE THAT ARE SPECIFIC TO THE DELIVERY OF STUDENT LOANS.

- o IN ORDER TO ADDRESS PROBLEMS ENCOUNTERED BY BORROWERS IN THE EARLY YEARS OF REPAYMENT AND THOSE WHO HAVE INCREASING LOAN BALANCES, A GREATER EMPHASIS SHOULD BE PLACED DURING LOAN ORIGINATIONS ON DEBT-BURDEN COUNSELING AND OVERALL DEBT LIMITS.

- o CARE MUST BE EXERCISED TO ENSURE THAT ADMINISTRATIVE RULES DESIGNED TO LOWER THE RATE OF GUARANTEED STUDENT LOAN DEFAULTS DO NOT RESULT IN THE DENIAL OF ACCESS TO THESE LOANS TO ELIGIBLE STUDENTS. THE DEPARTMENT OF EDUCATION SHOULD MONITOR THE PRACTICES OF GUARANTY AGENCIES TO ENSURE THAT LOANS ARE NOT BEING DENIED TO CERTAIN GROUPS OF STUDENTS BECAUSE OF RESTRICTIVE ADMINISTRATIVE POLICIES.

RECOVERING DEFAULTED LOAN PRINCIPAL

CONCLUSIONS

A significant factor in lowering federal costs for defaults has been the collections made from borrowers who have been declared in default. The federal government has made a policy commitment in recent years to recoup funds on loans on which it has paid its guarantee. Incentives provided to guaranty agencies have also added to the amount of money collected. Loopholes in bankruptcy statutes still allow student loans to be written off, for only a few cents on the dollar in some cases. These laws should be tightened so that defaulters can be pursued in future years.

Additionally, federal regulations should be designed so that lenders are not given unintended incentives to submit default claims. Lenders or servicers should be allowed to continue collecting from borrowers who have fallen behind in their payments for up to six months if they can show they are maintaining contact with the borrower and that the borrower is making a good faith effort to repay.

RECOMMENDATIONS

- THE FEDERAL GOVERNMENT SHOULD CONTINUE TO COLLECT ON DEFAULTED LOANS THROUGH A COLLECTIONS EFFORT OPERATED BY THE DEPARTMENT OF EDUCATION AND BY PROVIDING INCENTIVES TO GUARANTY AGENCIES FOR THIS PURPOSE. FEDERAL BANKRUPTCY STATUTES SHOULD BE MODIFIED SO THAT THE GUARANTEED STUDENT LOAN PRINCIPAL AND INTEREST REMAINING AFTER SETTLEMENTS CAN BE PURSUED IN LATER YEARS.

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